Report of the Treasurer

for the year ended
June 30, 2014

Massachusetts
Institute of
Technology

Report of the Treasurer

for the year ended June 30, 2014

Massachusetts
Institute of
Technology

The Corporation

2013–2014

as of June 30, 2014

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Members' names are listed in chronological order of election to each category.

**Member of the Executive Committee*

Table of Contents

Report of the Treasurer

To Members of the Corporation

In fiscal 2014, MIT continued to advance knowledge, push the boundaries of research discovery, and extend its educational impact while further enhancing the Institute's solid financial position. It was a year of impressive investment performance, with MIT's pooled investments generating a return of 19.2 percent, and net operating results of $205.8 million, resulting in an increase of 15.4 percent in net assets totaling $16,315.5 million.

This positive operating performance has made it possible for the Institute to boldly pursue its mission and continue to invest in campus infrastructure to enable the work of MIT's preeminent faculty, outstanding students, and future generations of learners on campus and beyond.

Last fall, President L. Rafael Reif named Professor Fiona Murray and Associate Dean for Innovation Vladimir Bulović to lead the MIT Innovation Initiative, which will focus and amplify MIT's natural strength in innovation to solve global problems. In connection with this initiative, MIT recently announced plans to construct comprehensive facilities for conducting nanotechnology research on the renovated site of Building 12 in the heart of campus. MIT.nano is envisioned to become a hub for nanoscale research with the most advanced cleanroom, imaging, and prototyping facilities.

In addition, this spring, Professor Susan Solomon was appointed Founding Director of the MIT Environmental Initiative, which will help to focus MIT's strength in advancing science, engineering, management, design, and policy solutions to address the important challenges of climate change and building a sustainable society. This new effort complements the work of the MIT Energy Initiative, where faculty conduct multidisciplinary research and partner with industry to transform the energy system. Also working in a multidisciplinary manner at the intersection of engineering, science, and medicine, the Institute for Medical Engineering and Science (IMES) aims to accelerate innovation in medical devices and products.

The Institute-wide Task Force on the Future of MIT Education released its final report on August 4, 2014, presenting 16 recommendations to lay the groundwork for MIT to envision and achieve its future educational mission. MIT has historic opportunities to extend its impact to the world and lower barriers to access, while enhancing the residential experience with bold experiments, transformed pedagogy, and online educational tools.

There are currently over 1,000 local edX communities worldwide, offering a glimpse into what may be possible in the future. MITx has launched three XSeries certificates, and last spring, MITx offered its first online MIT Professional Education class on the edX platform, entitled Tackling the Challenges of Big Data. The class attracted close to 3,000 active registrants, confirming the tremendous demand for rigorous online offerings for professionals. Through these and other experiments, MIT continues to explore opportunities to enhance the residential experience with blended learning models and online educational materials, while reaching more learners worldwide.

Our work on the Task Force has also demonstrated that MIT has constantly evolved its financial model and the future will be no different. While MITx offerings and possibilities may develop new sources of revenue, MIT's current financial model relies heavily on research funding, tuition (net of substantial financial aid), investment returns, and the generosity of alumni and friends.

This year's and recent past's strong financial results, as depicted in the Summary of Key Financial Highlights table below, have enabled us to make significant progress in our campus renewal plans outlined in the MIT 2030 framework and capital plan approved last year. In April 2014, MIT successfully secured another tranche of the long-term financing needed through the end of the decade. The proceeds from these bonds, together with our fundraising efforts, will be used to further advance MIT's ongoing campus renewal program.

Summary of Key Financial Highlights (10-year trend)

(in millions of dollars)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating Revenues	2,031	2,141	2,180	2,408	2,644	2,663	2,751	2,990	3,187	3,124
Operating Expenses	2,037	2,182	2,208	2,294	2,461	2,383	2,571	2,744	2,909	2,919
Operating Results	(6)	(41)	(28)	114	183	280	180	246	278	206
Net Assets	8,626	10,060	12,695	12,770	9,946	10,324	12,388	12,799	14,133	16,315
Endowment	6,712	8,368	9,943	9,948	7,880	8,317	9,713	10,150	10,858	12,425
Borrowings	1,250	1,278	1,078	1,335	1,736	1,729	2,468	2,460	2,428	2,919

As we maintain our emphasis on revitalizing the campus through new development and capital renewal, we are also working to improve connections with the Cambridge community. This past fall, MIT created the Office of Sustainability to ensure that the principles of sustainability are integrated into all operational functions and campus planning and construction as we seek shared solutions with the Cities of Cambridge and Boston. We have reached an important juncture in the planning process for the East Campus and Kendall Square area. Building on the Kendall Square rezoning process approved last year and the work of the Faculty Task Force on Community Engagement, MIT has issued a request for proposals seeking design teams to create building concepts to bring through the City's review process. We are also beginning a West Campus Planning study, and providing quality housing for MIT's students is an important component of both the East and West Campus planning efforts.

The following are additional details regarding MIT's fiscal 2014 financial statements: Statements of Financial Position, Statement of Activities, and Statements of Cash Flows.

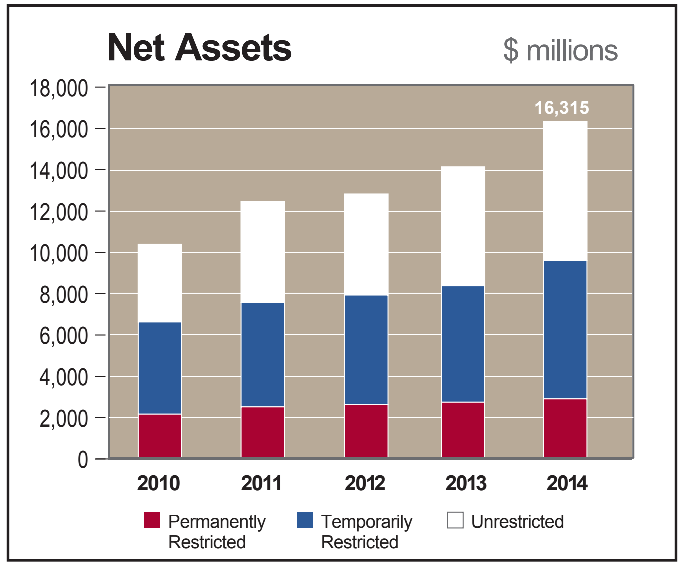
Statements of Financial Position

The discussion in this section highlights key elements of MIT's financial position—net assets; investments; endowment; land, buildings, and equipment; postretirement benefit assets and liabilities; and borrowings.

Net Assets

Total net assets increased to $16,315.5 million, an increase of 15.4 percent from fiscal 2013, establishing a new level of overall net worth. Net assets are presented in three distinct categories to recognize the significant ways in which universities are different from profit-making organizations. These categories reflect the nature of the restrictions placed on gifts by donors.

In fiscal 2014, permanently restricted net assets increased $129.3 million, or 4.8 percent, to $2,842.3 million, primarily due to new gifts and pledges made and income reinvestment to permanently restricted endowment funds. Temporarily restricted net assets increased $1,073.9 million, or 19.0 percent, to $6,718.2 million, primarily due to an increase in the market value of assets held in permanently restricted funds. The Commonwealth of Massachusetts requires that all universities located within the Commonwealth report accumulated market gains on both permanently and temporarily restricted net assets as temporarily restricted net assets until appropriated for use.



Unrestricted net assets increased $979.3 million, or 17.0 percent, to $6,755.0 million, primarily due to unrestricted investment gains and changes in retirement plan obligations.

Investments

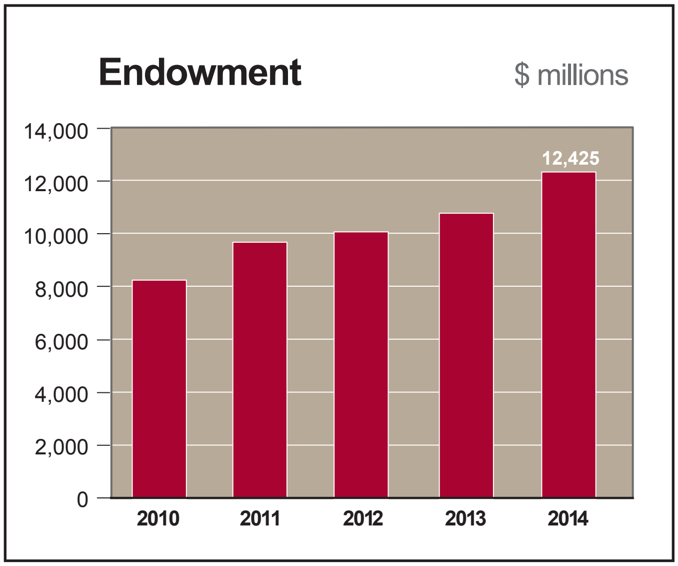
Investments at fair value were $16,228.8 million as of fiscal year end 2014, an increase of $2,398.7 million, or 17.3 percent, from $13,830.1 million as of the previous fiscal year end. In fiscal 2013, MIT began a program to finance certain real estate investments to optimize the use of invested capital in support of the Institute's mission. For fiscal 2014, the Institute incurred an additional $150.0 million of investment liabilities related to this real estate investment program; the outstanding liability balance totaled $231.2 million as of fiscal year end 2014. Since a low in fiscal 2009, total investments have increased by $6,670.5 million.

The financial statements include both realized and unrealized gains and losses on investments and other assets. These amounts totaled a net gain of $2,152.9 million in fiscal 2014, and $1,164.2 million in fiscal 2013.

MIT's investment policy is based on the primary goal of generating high real rates of return without exceptional volatility. To reduce volatility, the portfolio is broadly diversified. To generate high real rates of return, MIT's investment policy favors equity investments over fixed income instruments and is heavily weighted towards less efficient markets such as private equity, real estate, and real assets. MIT primarily invests through external fund managers, thereby allowing MIT to access the best investment talent globally. By identifying a wide variety of top-tier investment managers with specific competencies, MIT is able to construct a broadly diversified portfolio while accessing deep sector expertise. Decision authority for the selection of managers, direct investments, and asset allocation resides with MIT's Investment Management Company (MITIMCo). The Board of Directors of MITIMCo holds four regularly scheduled meetings during the fiscal year where investment policy, performance, and asset allocation are reviewed.

Endowment

Endowment assets, the largest component of total investments, are managed to maximize total investment return relative to appropriate risk. The market value of investments in endowment funds, excluding pledges for endowed purposes, totaled $12,425.1 million as of fiscal year end 2014, an increase of 14.4 percent over the $10,858.0 million level of last year.



This year, MIT's pooled investments (Pool A) produced a return of 19.2 percent. Investment income and a portion of gains are distributed for spending in a manner that preserves the long-term purchasing power of the endowment. Endowment funds invested in Pool A, MIT's primary investment pool, receive distributions based on relative ownership, which is valued monthly.

Land, Buildings, and Equipment

Land, buildings, and equipment had a net book value of $2,624.3 million as of fiscal year end 2014, an increase of $108.0 million, or 4.3 percent, from $2,516.3 million the previous year, mainly driven by expenditures for research and educational facilities.

A number of transformational gifts have enabled new construction and major renovation projects. As noted earlier, the Institute announced plans to construct the state-of-the-art MIT.nano building on the current site of Building 12 as a home for nanotechnology research at MIT. Enabling work to expand utilities for the facility has begun, and the new building is targeted for completion at the beginning of 2018. The original Sloan Building E52 is undergoing a complete renovation to provide high-quality space for the Department of Economics, administrative offices for the Sloan School of Management, and a seventh-floor addition with an expanded conference center and spectacular river views. In addition, the comprehensive renovation of Building 2 is nearing completion. Home to the Department of Mathematics and portions of the Department of Chemistry, programmatic space is being increased with a new partial top floor. Targeted for completion next spring, the renovation of Building 66 will provide improvements for nearly 50 percent of the building's space, and infrastructure improvements will support research and space needs for the Department of Chemical Engineering. In addition, the third level of Building E25 is being renovated to provide laboratory and office space for the Institute for Medical Engineering and Science (IMES).

In addition to these substantial building upgrades, we are planning for and executing a number of partial renovations across campus over the next few years in conjunction with the Accelerated Capital Renewal (ACR) program. ACR is intended to reduce deferred maintenance, accomplish prioritized renovation projects, and pursue strategic building interventions. The Comprehensive Stewardship Group (CSG) complements ACR by shepherding MIT's newest and newly renovated buildings to help these buildings retain their capacity to further MIT's mission.

Postretirement Benefit Assets and Liabilities

The defined benefit pension plan had assets of $3,135.8 million as of fiscal year end 2014, an increase of $377.5 million from $2,758.3 million as of fiscal year end 2013. The plan's projected liabilities were $3,140.7 million as of fiscal year end 2014, up $336.9 million from $2,803.8 million a year earlier, resulting in a net pension liability of $4.9 million and $45.5 million as of June 30, 2014 and 2013, respectively. MIT also maintains a postretirement welfare benefit plan that covers retiree expenses associated with medical and life insurance benefits. This plan had assets of $495.4 million and liabilities of $539.3 million as of fiscal year end 2014, resulting in a net benefits liability of $43.9 million compared to $64.1 million as of fiscal year end 2013. For both plans, the increases in assets and liabilities were primarily due to investment performance and lower discount rates, respectively.

The combined plans' fiscal 2014 underfunded status was $48.8 million, down from $109.6 million as of fiscal year end 2013. On an accounting basis in fiscal 2013, the defined benefit pension plan had a funding level of 98.4 percent, and the postretirement welfare benefit plan had a funding level of 86.6 percent. In accordance with the Institute's funding strategy to ensure the long-term strength of these plans, the Institute contributed $20.4 million to the defined benefit pension plan and $31.5 million to the postretirement welfare benefit plan during fiscal 2014. As a result of these contributions, changes in the interest rate environment, and actual investment performance, the funding status of these plans improved to 99.8 percent and 91.9 percent, respectively. The investments of both plans' assets are managed by MITIMCo.

MIT also offers a 401(k) plan to its employees, which is not reflected in the Statements of Financial Position. Assets in this plan are invested at the direction of participants in a broad array of investment funds. The plan's investment market value was $3,814.7 million as of fiscal year end 2014.

Borrowings

In fiscal 2014, borrowings increased by $490.7 million, or 20.2 percent. This increase is primarily the result of the Institute's taxable century bond issuance of $550.0 million offset by principal repayments of $55.2 million.

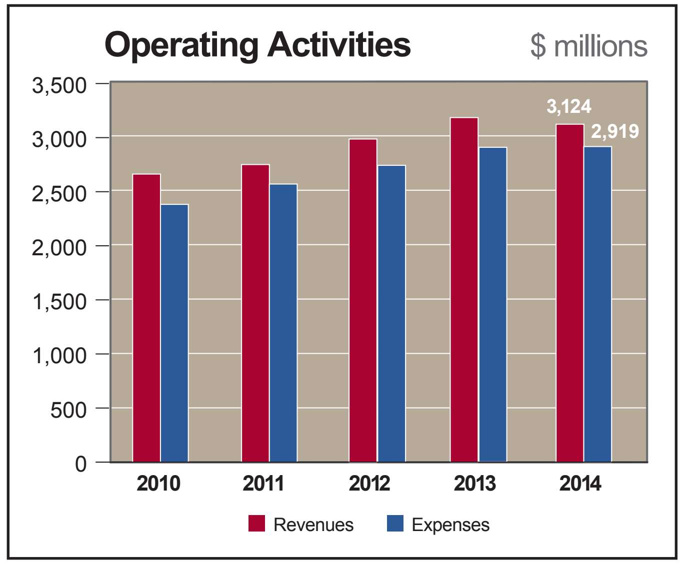
MIT's financial strength is reviewed periodically by both Moody's Investors Service and Standard & Poor's Rating Services. In fiscal 2014, these agencies rated the most recent century bond issuance and reaffirmed MIT's credit as "Aaa" and "AAA," their highest rating levels.

Statement of Activities

Operating Activities

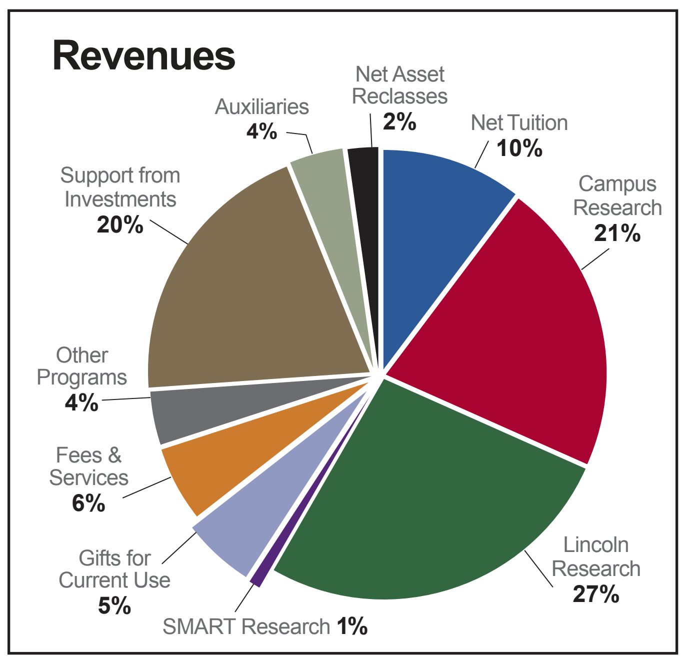
In fiscal 2014, MIT expected Federal research funding to be under pressure and result in an overall reduction of research volume. The Institute exercised expense control in administrative areas, while investing in education and research activities. MIT ended the year with a surplus from operations of $205.8 million. This is $72.2 million, or 26.0 percent, lower than the fiscal 2013 result.

Operating revenues decreased $62.3 million, or 2.0 percent, to $3,124.3 million in fiscal 2014, while operating expenses increased $9.9 million, or 0.3 percent, to a total of $2,918.5 million. Year-over-year comparisons of the components of operating results are presented on the following graph.



Operating Revenues

MIT's operating revenues include tuition, research, unrestricted gifts and bequests for current use, fees and services, other programs, endowment distribution and income from other investments, auxiliaries, and payments on pledges for unrestricted purposes (within net asset reclassifications and transfers).



Tuition revenue for graduate, undergraduate, and non-degree executive programs net of financial aid grew by $14.3 million, or 4.6 percent, to $324.5 million. The growth in undergraduate tuition revenue was driven by a 0.6 percent increase in student population and a 3.4 percent increase in tuition rates. Financial aid for undergraduate students slightly increased by 1.0 percent to $88.6 million. Financial aid for graduate students grew by 6.8 percent to $182.7 million.

Research revenues for on-campus departments, labs, and centers at MIT increased $6.7 million, or 1.0 percent, to $668.6 million. Research revenues for Lincoln Laboratory decreased $62.3 million, or 7.0 percent, to $828.7 million, and for the Singapore-MIT Alliance for Research and Technology (SMART) decreased $15.9 million, or 33.5 percent, to $31.6 million.

The growth rate in MIT's campus research is primarily being driven by non-Federal sponsors. Federally sponsored research revenue slightly declined by 2.4 percent compared to the prior fiscal year, with the largest decreases being related to the Department of Defense and the Department of Health and Human Services. The decrease in Lincoln Laboratory research is the result of reduced Federal funding from the Department of Defense. The decrease in SMART research is the result of the timing of expenditures incurred to fit out the new Campus for Research Excellence and Technology Enterprise (CREATE), which occurred in fiscal 2013.

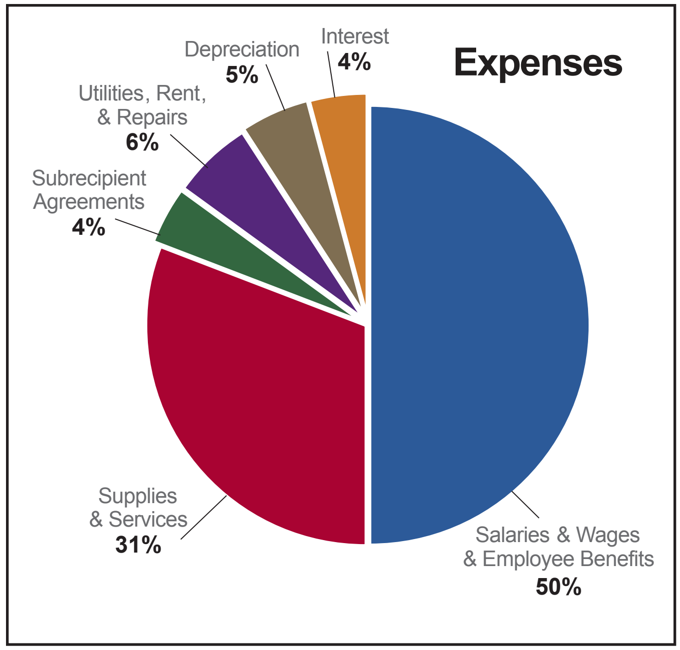
MIT's modified total direct research expenditures, which form the basis for recovery of indirect costs, increased by $2.1 million, or 0.2 percent, in fiscal 2014.

While research and net tuition support more than half of MIT's revenue, the Institute experienced moderate growth in support from investments and auxiliary enterprises. Support from investments increased $27.8 million, or 4.7 percent, primarily due to an increase in the endowment distribution. The effective spending rate on endowed funds was 4.9 percent, or 5.3 percent on a three-year average basis, in fiscal 2014. Auxiliary revenues increased $5.6 million, or 4.9 percent, primarily due to increases in rates associated with housing and dining services.

Operating Expenses

Operating expenses grew to $2,918.5 million, an increase of $9.9 million, or 0.3 percent. This consolidated result combines differing underlying trends in units funded by the general Institute unrestricted budget, the research enterprise, and expenditures from accumulated unit fund balances.

Overall Institute salary expenses rose 4.9 percent while employee benefits expenses rose 7.1 percent, primarily driven by increases in costs associated with medical and dental insurance, postretirement benefit plans, and faculty sabbatical leave. Campus average salary increases were 3.4 percent while headcount grew by 2.5 percent.



Non-Operating Revenues, Gains and Losses Summary

Non-operating activities contributed $1,963.7 million to MIT's fiscal 2014 total net assets of $16,315.5 million. Net appreciation on investments and other assets (reduced by the endowment spending distribution), gifts and bequests, pledges, and changes in retirement plan obligations and assets were the principal contributors to the net positive non-operating performance. Net appreciation on investments and other assets, reduced by the endowment spending distribution, totaled $1,655.0 million, and were offset by changes in retirement plan obligations and assets totaling $54.4 million.

Gifts and Pledges

Gifts to MIT support scholarships, fellowships, professorships, research, educational programming, and student life activities, as well as construction and renovation of buildings. Gifts and pledges for fiscal 2014 totaled $452.7 million, an increase of 39.3 percent from the fiscal 2013 total of $325.0 million. Gifts and pledges are up from the previous year, primarily driven by an increase in contributions received from individuals; overall giving is up 83.6 percent since fiscal 2010. Gifts from individuals represented 64.3 percent of new gifts and pledges in fiscal 2014, up from 39.6 percent in fiscal 2013. Gifts from foundations represented 23.4 percent of new gifts and pledges in fiscal 2014, down from 37.5 percent in fiscal 2013. Gifts from corporations and other sources represented 12.3 percent of new gifts and pledges in fiscal 2014, down from 22.9 percent in fiscal 2013.

New gifts and pledges for research and education were the largest categories of contributions for fiscal 2014.

Statements of Cash Flows

The overall cash position of MIT reflects positive operating results and an active cash management strategy that takes into account liquidity management, economic conditions, and future needs.

Net operating cash flow consumed $161.6 million in fiscal 2014. Net operating cash flow resulted from operating results, adjusted for non-cash items (depreciation, net gain on investments and other assets, and actuarial benefits liability changes) offset by changes in working capital, excluding cash and debt. The net of pledges receivable, accounts receivable, accounts payable, and other operating assets and liabilities used $98.8 million of operating cash flow in fiscal 2014 mainly due to new pledges and outstanding research billings. In fiscal 2014, net investing activities consumed $455.4 million in cash due to spending on capital projects and purchases of investments, offset by proceeds from sales of investments to cover the Institute's endowment spending policy. Cash provided by financing activities was $614.8 million in fiscal 2014, $590.1 million higher than in fiscal 2013, mainly due to proceeds from the Institute's century bond issuance of $550.0 million offset by principal repayments of $55.2 million and contributions restricted for the Institute's endowment of $86.4 million.

MIT's full financial statements and footnotes, further describing our financial position, activities, and cash flows through June 30, 2014, are included on the following pages.

Closing Remarks

The Institute begins fiscal 2015 on a sound foundation, with the financial strength needed to catalyze innovation in both research and education, with the capacity to reach a global audience of learners, and with a plan to achieve modernization of the campus by 2030. We approach the future with great optimism, but remain vigilant and aware of the world's financial uncertainties.

The strong financial performance of fiscal 2014 follows years of solid operating growth, enabling the Institute to address the critical need to renew and modernize MIT's campus and infrastructure. As we reinforce our commitment to access and affordability for students from all socioeconomic levels, we will need to bolster existing income sources and consider new revenue opportunities. We will also need to continue to diversify funding sources for research and education in order to mitigate the effects of pressured Federal funding and to preserve the Institute's research and education enterprises.

The work of the Institute-wide Task Force on the Future of MIT Education is creating the path to achieve the ambitious goal of reinventing education for future generations, and the unstoppable pioneering research discoveries of our faculty and students continue to amaze us all. It has been inspiring to see MIT renew its ongoing commitment to excellence in education, research, and administration as we collaborate to enable the MIT mission.

In closing, I would like to express my deep appreciation to John Reed and acknowledge his tremendous leadership and accomplishments as Chair of the Corporation since June 2010. I have personally valued his wisdom and guidance during all this time. I look forward to working closely with newly elected Chair Robert Millard after the transition in October.

I am also grateful for the unwavering commitment and dedication of our students, faculty, staff, alumni, friends, and members of the MIT Corporation, and I look forward to achieving our shared aspirations together.

Respectfully submitted,

Israel Ruiz
Executive Vice President and Treasurer
September 12, 2014

Massachusetts Institute of Technology
Statements of Financial Position
at June 30, 2014 and 2013

(in thousands of dollars)	2014	2013
Assets		
Cash	$ 297,759	$ 299,913
Accounts receivable, net	195,544	168,932
Pledges receivable, net, at fair value	490,336	404,594
Contracts in progress, principally US Government	65,326	67,999
Deferred charges, inventories, and other assets	120,811	107,891
Student notes receivable, net	48,169	49,484
Investments, at fair value	16,228,756	13,830,100
Noncontrolling interests	287,825	274,663
Land, buildings, and equipment (at cost of $3,881,205 for June 2014; $3,650,856 for June 2013), net of accumulated depreciation	2,624,271	2,516,264
Total assets	**$ 20,358,797**	**$ 17,719,840**
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accruals, and other liabilities	411,959	384,437
Liabilities due under life income fund agreements, at fair value	103,076	95,259
Deferred revenue and other credits	133,288	138,017
Advance payments	392,214	396,831
Borrowings	2,918,901	2,428,215
Government advances for student loans	35,037	34,563
Accrued benefit liabilities	48,830	109,644
Total liabilities	**4,043,305**	**3,586,966**
Net Assets:		
Unrestricted net assets controlled by the Institute	6,467,131	5,500,955
Unrestricted net assets attributable to noncontrolling interests	287,825	274,663
Total unrestricted net assets	6,754,956	5,775,618
Temporarily restricted net assets	6,718,225	5,644,291
Permanently restricted net assets	2,842,311	2,712,965
Total net assets	**16,315,492**	**14,132,874**
Total liabilities and net assets	**$ 20,358,797**	**$ 17,719,840**

The accompanying notes are an integral part of the financial statements.

Massachusetts Institute of Technology
Statement of Activities
for the year ended June 30, 2014
(with summarized financial information for the year ended June 30, 2013)

	2014			Total	
(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	2014	2013
Operating Activities					
Operating Revenues					
Tuition and similar revenues, net of discount of $271,299 in 2014 and $258,726 in 2013	$ 324,502	$ -	$ -	$ 324,502	$ 310,231
Research revenues:					
Campus	668,619	-	-	668,619	661,962
Lincoln	828,659	-	-	828,659	890,973
SMART	31,617	-	-	31,617	47,525
Total research revenues	1,528,895	-	-	1,528,895	1,600,460
Gift and bequests for current use	162,091	-	-	162,091	177,257
Fees and services	176,341	-	-	176,341	182,019
Other programs	117,481	-	-	117,481	125,118
Support from investments:					
Endowment	515,431	-	-	515,431	499,299
Other investments	109,925	-	-	109,925	98,218
Total support from investments	625,356	-	-	625,356	597,517
Auxiliary enterprises	120,101	-	-	120,101	114,461
Net asset reclassifications and transfers	69,556	-	-	69,556	79,532
Total operating revenues	$ 3,124,323	$ -	$ -	$ 3,124,323	$ 3,186,595
Operating Expenses					
Salaries and wages	$ 1,183,270	$ -	$ -	$ 1,183,270	$ 1,128,304
Employee benefits	287,976	-	-	287,976	268,831
Supplies and services	892,493	-	-	892,493	960,914
Subrecipient agreements	124,074	-	-	124,074	155,421
Utilities, rent, and repairs	182,271	-	-	182,271	159,098
Depreciation	137,638	-	-	137,638	129,138
Interest expense	110,795	-	-	110,795	106,871
Total operating expenses	2,918,517	-	-	2,918,517	2,908,577
Results of operations	$ 205,806	$ -	$ -	$ 205,806	$ 278,018
Non-Operating Activities					
Pledge revenue	$ -	$ 153,154	$ 26,965	$ 180,119	$ 104,207
Gifts and bequests	-	-	110,445	110,445	43,554
Investment income	-	1,726	7,372	9,098	7,236
Net gain on investments and other assets	917,813	1,294,684	(59,564)	2,152,933	1,164,164
Distribution of accumulated investment gains	(186,284)	(311,604)	-	(497,888)	(486,050)
Net change in life income funds	(7,483)	(2,894)	34,478	24,101	20,264
Postretirement plan changes other than net periodic benefit cost	54,398	-	-	54,398	311,442
Net asset reclassifications and transfers	(18,074)	(61,132)	9,650	(69,556)	(79,532)
Total non-operating activities	760,370	1,073,934	129,346	1,963,650	1,085,285
Increase in net assets controlled by the Institute	966,176	1,073,934	129,346	2,169,456	1,363,303
Change in net assets attributable to noncontrolling interests	13,162	-	-	13,162	(29,773)
Net assets at the beginning of the year	5,775,618	5,644,291	2,712,965	14,132,874	12,799,344
Net assets at the end of the year	**$ 6,754,956**	**$ 6,718,225**	**$ 2,842,311**	**$ 16,315,492**	**$ 14,132,874**

The accompanying notes are an integral part of the financial statements.

Massachusetts Institute of Technology

Statements of Cash Flows

for the years ended June 30, 2014 and 2013

(in thousands of dollars)	2014	2013
Cash Flow from Operating Activities		
Increase in net assets	$ 2,182,618	$ 1,333,530
Adjustments to reconcile change in net assets to net cash used in or provided by operating activities:		
Net gain on investments and other assets	(2,152,933)	(1,164,164)
Change in accrued benefit liabilities	(60,814)	(333,754)
Depreciation	137,638	129,138
Donated securities received	(42,890)	(129,915)
Proceeds from sale of donated securities	18,894	94,917
Net gain on life income funds	(32,275)	(12,621)
Change in noncontrolling interests	(13,162)	29,773
Amortization of bond premiums and discounts and other adjustments	(4,383)	(6,767)
Change in operating assets and liabilities:		
Pledges receivable	(85,742)	75,065
Accounts receivable	(26,612)	(8,975)
Contracts in progress	2,673	(1,275)
Deferred charges, inventories, and other assets	(12,920)	(14,392)
Accounts payable, accruals, and other liabilities, excluding building and equipment accruals	25,365	7,086
Liabilities due under life income fund agreements	7,817	7,360
Deferred revenue and other credits	(4,729)	(17,458)
Advance payments	(4,617)	16,664
Reclassify investment income	(9,098)	(7,236)
Reclassify contributions restricted for long-term investment	(86,449)	(8,557)
Net cash used in operating activities	(161,619)	(11,581)
Cash Flow from Investing Activities		
Purchase of land, buildings, and equipment	(243,118)	(148,834)
Purchases of investments	(34,457,642)	(64,279,236)
Proceeds from sale of investments	34,244,206	64,475,286
Student notes issued	(26,599)	(28,105)
Collections from student notes	27,801	28,255
Net cash (used in) provided by investing activities	(455,352)	47,366
Cash Flow from Financing Activities		
Investment in endowment	86,449	8,557
Proceeds from sale of donated securities restricted for endowment	23,996	34,998
Increase in investment income for restricted purposes	9,098	7,236
Proceeds from borrowings	550,000	-
Repayment of borrowings	(55,200)	(26,500)
Increase in government advances for student loans	474	460
Net cash provided by financing activities	614,817	24,751
Net (decrease) increase in cash	(2,154)	60,536
Cash at the beginning of the year	299,913	239,377
Cash at the end of the year	**$ 297,759**	**$ 299,913**

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

A. Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America. The financial statements include MIT and its wholly owned subsidiaries.

Net assets, revenues, expenses, gains and losses are classified into three categories based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted, and unrestricted net assets. Unconditional promises to give (pledges) are recorded as receivables and revenues within the appropriate net asset category.

Permanently restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains that are required by donors to be permanently retained. Pledges, trusts, and remainder interests are reported at their estimated fair values.

Temporarily restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains that can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds), or by interpretations of law (net gains on permanently restricted gifts that have not been appropriated for spending). Gifts specified for the acquisition or construction of long-lived assets are reported as temporarily restricted net assets until the monies are expended and the buildings are put into use, at which point they are reclassified to unrestricted net assets. Net unrealized losses on permanently restricted endowment funds for which the book value exceeds market value are recorded as a reduction to unrestricted net assets.

Unrestricted net assets are all the remaining net assets of MIT. Donor-restricted gifts and unexpended restricted endowment income that are received and either spent, or the restriction is otherwise met within the same year, are reported as unrestricted revenue. Gifts of long-lived assets are reported as unrestricted revenue.

Net asset reclassifications and transfers consist primarily of payments on unrestricted pledges and use of building funds in accordance with donor restrictions for buildings put into use during the year. Expirations of temporary restrictions on net assets, releases of permanent restrictions by a donor, and changes of restrictions imposed by donors are also reported as reclassifications of net assets among unrestricted, temporarily and permanently restricted net assets.

MIT administers its various funds, including endowments, funds functioning as endowments, school or departmental funds, and related accumulated gains, in accordance with the principles of "Fund Accounting." Gifts are recorded in fund accounts and investment income is distributed to funds annually. Income distributed to funds may be a combination of capital appreciation and yield pursuant to MIT's total return investment and spending policies. Each year, the Executive Committee of the Corporation approves the rates of distribution of investment return to the funds from MIT's investment pools. See Note K for further information on income distributed to funds.

MIT's operations include tuition, research revenues, unrestricted gifts and bequests for current use, fees and services, other programs, endowment distribution and income from other investments, auxiliary revenues, payments on pledges for unrestricted gifts, and operating expenditures. Results of operations are displayed in the Statement of Activities.

Tax Status

MIT is a nonprofit organization that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, originally recognized in October 1926, with the most recent affirmation letter dated July 2001.

US GAAP requires MIT to evaluate tax positions taken by the Institute and recognize a tax liability (or asset) if the Institute has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. MIT has analyzed the tax positions taken and has concluded that as of June 30, 2014, there are no significant uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Cash

Certain cash balances, totaling \$55.8 million and \$88.7 million at June 30, 2014 and 2013, respectively, are restricted for use under certain sponsored research agreements or are held on behalf of a related party.

The Institute had approximately \$296.0 million and \$298.5 million at June 30, 2014 and 2013, respectively, of its cash accounts with a single institution. The Institute has not experienced any losses associated with deposits at this institution.

Advance Payments

Amounts received by MIT from the US Government, corporations, industrial sources, foundations, and other non-MIT sponsors under the terms of agreements that generally require the exchange of assets, rights, or privileges between MIT and the sponsor are recorded as advance payments. Revenue is recognized as MIT fulfills the terms of the agreements.

Land, Buildings, and Equipment

Land, buildings, and equipment are shown at cost when purchased or fair value as of the date of a gift when received as a gift, net of accumulated depreciation. When expended, costs associated with the construction of new facilities are shown as construction in progress until such projects are completed and put into use. Depreciation is computed on a straight-line basis over the estimated useful lives of 25 to 50 years for buildings, 3 to 25 years for equipment, and 4 to 6 years for software.

Fully depreciated assets were removed from the financial statements in the amount of $33.6 million and $42.1 million during 2014 and 2013, respectively. Land, buildings, and equipment at June 30, 2014 and 2013, are shown in Table 1.

Table 1. Land, Buildings, and Equipment

(in thousands of dollars)	2014	2013
Land	$ 67,538	$ 67,538
Land improvements	64,733	65,541
Educational buildings	3,281,247	3,212,543
Equipment	246,026	172,073
Software	40,803	35,549
Total	3,700,347	3,553,244
Less: accumulated depreciation	(1,256,934)	(1,134,592)
Construction in progress	167,726	84,874
Software projects in progress	13,132	12,738
Net land, buildings, and equipment	**$ 2,624,271**	**$ 2,516,264**

Depreciation expense was $137.6 million in 2014 and $129.1 million in 2013. Net interest expense of $4.4 million and $3.3 million was capitalized during 2014 and 2013, respectively, in connection with MIT's construction projects.

Tuition and Student Support

Tuition and similar revenues, shown in Table 2 below, include tuition and fees in degree programs as well as tuition and fees for executive and continuing education programs at MIT.

Table 2. Tuition and Similar Revenues

(in thousands of dollars)	2014	2013
Tuition revenue	$ 553,344	$ 527,974
Executive and continuing education revenues	42,457	40,983
Total	595,801	568,957
Less: tuition discount	(271,299)	(258,726)
Net tuition and similar revenue	**$ 324,502**	**$ 310,231**

Tuition support is awarded to undergraduate students by MIT based on need. Graduate students are provided with tuition support in connection with research assistance, teaching assistance, and fellowship appointments. Tuition support from MIT sources is displayed as tuition discount. Total student support granted to students was $481.8 million and $460.6 million in 2014 and 2013, respectively. Of that amount, $157.6 million in 2014, and $152.4 million in 2013, was aid from sponsors. Components of student support are detailed in Table 3 below.

Table 3. Student Support

	2014			2013		
(in thousands of dollars)	Institute Sources	External Sponsors	Total Student Support	Institute Sources	External Sponsors	Total Student Support
Undergraduate tuition support	$ 88,570	$ 14,506	$ 103,076	$ 87,680	$ 14,151	$ 101,831
Graduate tuition support	182,729	57,293	240,022	171,046	55,112	226,158
Fellow stipends	20,934	17,858	38,792	19,772	16,401	36,173
Student employment	31,935	67,955	99,890	29,721	66,725	96,446
Total	**$ 324,168**	**$ 157,612**	**$ 481,780**	**$ 308,219**	**$ 152,389**	**$ 460,608**

A. Accounting Policies (continued)

Sponsored Research

Direct and indirect categories of research revenues are shown in Table 4 below.

Table 4. Research Revenues

(in thousands of dollars)	2014	2013
Direct:		
Campus	$ 480,483	$ 473,220
Lincoln	791,292	860,190
SMART	31,519	47,332
Total direct	**1,303,294**	**1,380,742**
Indirect:		
Campus	$ 188,136	$ 188,742
Lincoln	37,367	30,783
SMART	98	193
Total indirect	**225,601**	**219,718**
Total research revenues	**$ 1,528,895**	**$ 1,600,460**

Revenue associated with contracts and grants is recognized as related costs are incurred. The capital costs of buildings and equipment are depreciated over their estimated life cycle, and the sponsored research recovery allowance for depreciation is treated as indirect research revenue. MIT has recorded reimbursement of indirect costs relating to sponsored research at negotiated fixed billing rates. The revenue generated by the negotiated rates is adjusted each fiscal year to reflect any variance between the negotiated fixed rates and rates based on actual cost. The actual cost rate is audited by the Defense Contract Audit Agency (DCAA) and a final fixed-rate agreement is signed by the US Government and MIT. The variance between the negotiated fixed rate and the final audited rate results in a carryforward (over- or under-recovery). The carryforward is included in the calculation of negotiated fixed billing rates in future years. Any adjustment in the rate is charged or credited to unrestricted net assets.

Gifts and Pledges

Gifts and pledges are recognized when received. Gifts of securities are recorded at their fair value at the date of contribution. Donated securities received totaled $42.9 million and $129.9 million in 2014 and 2013, respectively, and are shown separately in the Statements of Cash Flows. Gifts of equipment received from manufacturers and other donors are put into use and recorded by MIT at fair value. Gifts of equipment totaled $1.3 million in 2014, and $0.1 million in 2013. Pledges in the amount of $490.3 million and $404.6 million were recorded as receivables at June 30, 2014 and 2013, respectively, with the revenue assigned to the appropriate classification of restriction. Pledges consist of unconditional written promises to contribute to MIT in the future and are recorded after discounting the future cash flows to their present value.

MIT records items of collections as gifts at nominal value. They are received for educational purposes and most are displayed throughout MIT. In general, collections are not disposed of for financial gain or otherwise encumbered in any manner.

Life Income Funds

MIT's life income fund agreements with donors consist primarily of irrevocable charitable gift annuities, pooled income funds, and charitable remainder trusts for which MIT serves as trustee. Assets are invested and payments are made to donors and other beneficiaries in accordance with the respective agreements. MIT records the assets that are associated with each life income fund at fair value and records as liabilities the present value of the estimated future payments at current interest rates to be made to the donors and beneficiaries under these agreements. A rollforward of liabilities due under life income fund agreements is presented in Table 5.

Table 5. Liabilities Due Under Life Income Funds

(in thousands of dollars)	2014	2013
Balance at the beginning of the year	$ 95,259	$ 87,899
Addition for new gifts	5,353	12,073
Termination and payments to beneficiaries	(14,917)	(18,043)
Net investment and actuarial gain	17,381	13,330
Balance at the end of year	**$ 103,076**	**$ 95,259**

Recently Adopted Accounting Standards

On July 1, 2013, MIT adopted new guidance enhancing the disclosures about *Offsetting Assets and Liabilities*. This guidance requires MIT to disclose both gross and net information about instruments and transactions eligible for offset in the statement of assets and liabilities as well as instruments and transactions subject to an agreement similar to a master netting arrangement. It also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. Management has evaluated the impact of the enhanced guidance on the Institute's financial statements and has added the required additional disclosures in Note C.

On July 1, 2012, MIT early adopted new guidance related to the *Statements of Cash Flows*. This guidance requires MIT to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the Statements of Cash Flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any imposed limitations for sale and were converted nearly immediately into cash.

On July 1, 2012, MIT adopted further new guidance enhancing the *Fair Value Measurement* standard, to ensure that the valuation techniques for investments that are categorized with Level 3 of the

A. Accounting Policies (continued)

fair value hierarchy are fair, consistent, and verifiable. Refer to Note B for further details.

Noncontrolling Interests

MIT is the general partner for several private equity funds and has displayed the noncontrolling interests on the Statements of Financial Position.

Non-Cash Items

Non-cash transactions excluded from the Statements of Cash Flows include $14.6 million and $12.4 million of accrued liabilities related to plant and equipment purchases for 2014 and 2013, respectively.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain June 30, 2013, balances and amounts previously reported have been reclassified to conform to the June 30, 2014, presentation.

Subsequent Events

MIT has evaluated subsequent events through September 12, 2014, the date the financial statements were issued. On September 5, 2014, the Institute received Executive Committee approval to redeem (or advance refund) a callable portion of its Massachusetts Development Finance Agency Series N and O bonds in an amount up to $550.0 million.

Summarized Information

The Statement of Activities includes certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with MIT's financial statements for the year ended June 30, 2013, from which summarized information was derived.

B. Investments

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date. Realized gains and losses are recorded by MIT using the average cost basis. For limited partnerships, the realized gain/loss is calculated once the entire cost basis is distributed back to MIT or using information provided by managers with respect to the character of a distribution as being a gain or return of capital.

MIT values its investments in accordance with the principles of accounting standards which establish a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. MIT follows a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is unobservable.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by MIT for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

• Level 1 – Quoted prices in active markets for identical assets or liabilities. Market price data is generally obtained from relevant exchanges or dealer markets.

• Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers, and brokers.

• Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Investments may be classified as Level 2 when market information (including observable net asset values) is available, yet the investment is not traded in an active market. Market information, including observable net asset values, subscription and redemption activity, if applicable, and the length of time until the investment will become redeemable are considered when determining the proper categorization of the investment's fair value measurement within the fair valuation hierarchy.

Fund investments that have observable market inputs (such as net asset values) and from which MIT has the ability to redeem within twelve months of June 30 are classified in the fair value hierarchy as Level 2.

Investment funds that have unobservable inputs or for which MIT does not have the ability to redeem within twelve months are classified in the fair value hierarchy as Level 3.

B. Investments (continued)

Table 6 presents MIT's investments at fair value as of June 30, 2014 and 2013, grouped by the valuation hierarchy as defined earlier in this note.

Transfers between levels are recognized at the beginning of the reporting period. There were no transfers between Level 1 and Level 2 fair value measurements in 2014 and 2013. Transfers between Level 2 and Level 3 result from the expiration or commencement of lock-ups which impact MIT's ability to exit the fund within twelve months. The 2014 transfers for absolute return, shown in Table 7, include $247.4 million out of and $139.3 million into Level 3 investments. All other categories reflect gross activity.

Cash and cash equivalents include cash, money market funds, repurchase agreements, and negotiable certificates of deposit and are valued at cost, which approximates fair value. Instruments listed or traded on a securities exchange are valued at the last quoted price on the primary exchange where the security is traded.

Investments in non-exchange-traded debt are primarily valued using independent pricing sources that use broker quotes or models using market observable inputs. Investments managed by external advisors include investments in absolute return, domestic, foreign and private equity, real estate, and real asset commingled funds.

The majority of these commingled funds are not readily marketable and are reported at fair value utilizing the most current information provided by the external advisors. The fair value of these securities held in external investment funds that do not have a readily determinable fair value is determined by the external managers based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the external managers taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Using these valuations, most of these external managers calculate MIT's capital account or net asset value (NAV) in accordance with, or in a manner consistent with, GAAP. As a practical expedient, MIT is permitted under GAAP to estimate the fair value of its investments with external managers using the external managers' reported NAV without further adjustment unless MIT expects to sell the investment at a value other than NAV or the NAV is not calculated in accordance with GAAP. Direct real estate holdings are valued at fair market value based on external appraisals.

Other direct investments that are not readily marketable are valued by MIT based upon valuation information received from the entity which may include last trade information, third-party appraisals of real estate, or valuations prepared in connection with the administration of an employee stock ownership plan. MIT may also utilize industry standard valuation techniques, including discounted cash flow models. The significant unobservable inputs used in the fair value measurements of MIT's direct investments may include their cost of capital and equity and industry risk premiums. Significant increases or decreases in these inputs in isolation may result in a significantly lower or higher fair value measurement, respectively. Split-interest agreements are generally valued at the present value of the future distributions expected to be received over the term of the agreement. Over-the-counter positions, such as interest rate and total return swaps, credit default swaps, options, exchange agreements, and interest rate cap and floor agreements, are valued using broker quotes or models using market observable inputs. Because the swaps and other over-the-counter derivative instruments have inputs that can usually be corroborated by observable market data, they are generally classified within Level 2.

B. Investments (continued)

Table 6. Investments

(in thousands of dollars)	Quoted Prices in Active Markets [Level 1]	Significant Other Observable Inputs [Level 2]	Significant Unobservable Inputs [Level 3]	Total Fair Value
Fiscal Year 2014				
Cash and cash equivalents	$ 2,691,413	$ -	$ -	$ 2,691,413
US Treasury	779,831	-	-	779,831
US Government agency	15	74,312	-	74,327
Domestic bonds**	15,624	91,704	97,254	204,582
Foreign bonds**	20	22,545	-	22,565
Common equity:				
Long domestic	183,997	1	178,941	362,939
Long foreign	422,562	6,498	-	429,060
Short domestic	-	-	-	-
Short foreign	(5)	-	-	(5)
Equity:**				
Absolute return	-	285,721	1,358,147	1,643,868
Domestic	-	219,146	1,218,902	1,438,048
Foreign	71	350,234	2,182,043	2,532,348
Private	-	-	2,783,586	2,783,586
Real estate*	9,770	-	2,634,129	2,643,899
Real assets**	-	7,106	707,401	714,507
Split-interest agreements	-	-	147,182	147,182
Other	8,713	-	9,721	18,434
Derivatives	82	(26,722)	-	(26,640)
Total investments, gross	$ 4,112,093	$ 1,030,545	$ 11,317,306	$ 16,459,944
Liabilities associated with investments:				
Real estate***	-	-	(231,188)	(231,188)
Total investments, net	**$ 4,112,093**	**$ 1,030,545**	**$ 11,086,118**	**$ 16,228,756**
Fiscal Year 2013				
Cash and cash equivalents	$ 1,526,544	$ –	$ –	$ 1,526,544
US Treasury	629,760	–	–	629,760
US Government agency	18	93,502	–	93,520
Domestic bonds**	17,951	253,163	86,895	358,009
Foreign bonds**	–	19,381	–	19,381
Common equity:				
Long domestic	147,168	–	241,382	388,550
Long foreign	135,099	–	–	135,099
Short domestic	–	–	(3)	(3)
Short foreign	(18)	–	–	(18)
Equity:**				
Absolute return	51,218	351,022	1,222,830	1,625,070
Domestic	–	18,024	1,249,343	1,267,367
Foreign	–	610,855	1,661,841	2,272,696
Private	–	–	2,510,672	2,510,672
Real estate*	17	–	2,311,490	2,311,507
Real assets**	711	5,482	619,632	625,825
Split-interest agreements	–	–	148,297	148,297
Other	–	–	2,444	2,444
Derivatives	385	(3,005)	–	(2,620)
Total investments, gross	$ 2,508,853	$ 1,348,424	$ 10,054,823	$ 13,912,100
Liabilities associated with investments:				
Real estate***	–	–	(82,000)	(82,000)
Total investments, net	**$ 2,508,853**	**$ 1,348,424**	**$ 9,972,823**	**$ 13,830,100**

** Real estate includes direct investments and investments held through commingled vehicles.*

*** Real assets, equity domestic bonds, and foreign bonds categories include commingled vehicles that invest in these type of investments.*

**** Interest rates are 3.93% to 4.54%. Maturities are in calendar years 2023 and 2024. Principal payments range from $3.3 million in fiscal year 2015 to $6.1 million in fiscal year 2023.*

B. Investments (continued)

Table 7 is a rollforward of the investments classified by MIT within Level 3 of the fair value hierarchy defined earlier in this footnote at June 30, 2014 and 2013.

Table 7. Rollforward of Level 3 Investments

(in thousands of dollars)	Fair Value Beginning	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Transfer of Assets Between Levels	Fair Value Ending
Fiscal Year 2014							
Domestic bonds	$ 86,895	$ -	$ -	$ 20,530	$ (10,171)	$ -	$ 97,254
Common equity:							
Long domestic	241,382	(26)	(62,335)	7,595	(7,675)	-	178,941
Long foreign	-	-	-	-	-	-	-
Short domestic	(3)	(5)	2	6	-	-	-
Equity:							
Absolute return	1,222,830	79,267	132,908	366,024	(334,793)	(108,089)	1,358,147
Domestic	1,249,343	74,211	238,856	33,035	(214,035)	(162,508)	1,218,902
Foreign	1,661,841	26,682	508,858	290,165	(280,440)	(25,063)	2,182,043
Private	2,510,672	349,193	231,764	343,616	(651,659)	-	2,783,586
Real estate	2,311,490	81,965	204,609	617,286	(581,730)	509	2,634,129
Real assets	619,632	8,194	99,191	54,040	(73,656)	-	707,401
Split-interest agreements	148,297	634	9,597	4,716	(16,062)	-	147,182
Other	2,444	5	273	7,587	(79)	(509)	9,721
Total, gross	$ 10,054,823	$ 620,120	$ 1,363,723	$ 1,744,600	$ (2,170,300)	$ (295,660)	$ 11,317,306
Real estate liabilities	(82,000)	-	-	(150,000)	812	-	(231,188)
Total, net	**$ 9,972,823**	**$ 620,120**	**$ 1,363,723**	**$ 1,594,600**	**$ (2,169,488)**	**$ (295,660)**	**$ 11,086,118**
Fiscal Year 2013							
Domestic bonds	$ 78,961	$ –	$ (1)	$ 16,781	$ (8,846)	$ –	$ 86,895
Common equity:							
Long domestic	279,521	1,190	(38,661)	7,258	(7,926)	–	241,382
Long foreign	–	15	–	–	(15)	–	–
Short domestic	(3)	–	–	–	–	–	(3)
Equity:							
Absolute return	1,283,490	131,862	6,142	105,729	(342,676)	38,283	1,222,830
Domestic	1,038,537	54,148	164,804	167,990	(176,136)	–	1,249,343
Foreign	1,070,981	14,313	261,364	592,900	(198,607)	(79,110)	1,661,841
Private	2,610,024	324,169	(74,308)	361,721	(710,934)	–	2,510,672
Real estate	1,964,901	6,456	187,235	355,320	(202,422)	–	2,311,490
Real assets	536,266	1,522	18,455	126,888	(63,499)	–	619,632
Split-interest agreements	121,816	171	27,287	16,444	(17,421)	–	148,297
Other	2,638	5	(193)	–	(6)	–	2,444
Total, gross	$ 8,987,132	$ 533,851	$ 552,124	$ 1,751,031	$ (1,728,488)	$ (40,827)	$ 10,054,823
Real estate liabilities	–	–	–	(82,000)	–	–	(82,000)
Total, net	**$ 8,987,132**	**$ 533,851**	**$ 552,124**	**$ 1,669,031**	**$ (1,728,488)**	**$ (40,827)**	**$ 9,972,823**

During 2014, MIT determined that the cash redemption distributions from private equity partnerships were not properly classified as realized gains (losses) and sales from Level 3 investments in Table 7, Rollforward of Level 3 Investments. As a result, the prior year totals for realized gains (losses) and total sales have been revised to $533.9 million, from $18.7 million previously disclosed, and to $1,728.5 million, from $1,213.3 million previously disclosed, respectively. Accordingly, prior year totals for realized gains (losses) and total sales in the absolute return, domestic equity, foreign equity, private equity, real estate, and real assets categories have been revised to reflect increases of $131.9 million, $54.1 million, $0.3 million, $312.4 million, $8.4 million, and $8.1 million, respectively. Management does not believe that the impact of the prior year revision is material.

All net realized and unrealized gains and losses relating to financial instruments held by MIT shown in Table 6 are reflected in the Statement of Activities. Cumulative unrealized gains related to Level 3 investments totaled $4,168.9 million and $2,958.5 million as of June 30, 2014 and 2013, respectively. The net change in unrealized gains (losses) related to these financial instruments held by MIT at June 30, 2014, and June 30, 2013, are disclosed in Table 7.

MIT enters into short sales whereby it sells securities which may or may not be owned by MIT in anticipation of a decline in the price of such securities or in order to hedge portfolio positions. Cash collateral and certain securities owned by MIT were held at counterparty brokers to collateralize these positions and are included in investments on the Statements of Financial Position.

B. Investments (continued)

Table 8 below sets forth a summary of valuation techniques and quantitative information utilized in determining the fair value of MIT's Level 3 investments as of June 30, 2014 and 2013, where no practical expedient using external managers' reported NAVs exists.

Table 8. Level 3 Valuation Techniques

Asset Type *(in thousands of dollars)*	Fair Value at June 30, 2014	Fair Value at June 30, 2013	Valuation Technique	Unobservable Input	2014 Rates	2013 Rates
Real estate	$ 1,542,069	$ 1,425,621	Discounted cash flow	Discount Rate	5.5-9.0%	5.5-9.0%
Equity securities	162,416	224,375	Discounted cash flow	Discount Rate	15.3%	11.0%
Split-interest agreements	111,358	88,674	Net present value	Discount Rate	1.0-8.0%	1.0-8.0%
Real assets	10,464	9,629	Discount to public price	Discount	20.0%	20.0%
Other illiquid assets. . .	1,761	360	Varies	Varies	Varies	Varies
Total assets	**$ 1,828,068**	**$ 1,748,659**				

Certain investments in real estate, equities, and private investments may be subject to restrictions that (i) limit MIT's ability to withdraw capital after such investment and (ii) may be subject to limitations that limit the amount that may be withdrawn as of a given redemption date. Most absolute return, domestic equity and foreign equity commingled funds limit withdrawal to monthly, quarterly, or other periods, and may require notice periods. In addition, certain of these funds are able to designate a portion of the investments as illiquid in "side-pockets," and these funds may not be available for withdrawal until liquidated by the investing fund. Generally, MIT has no discretion as to withdrawal with respect to its investment in private equity and real estate funds. Distributions are made when sales of assets are made within these funds, and the investment cycle for these funds can be as long as 15 to 20 years. These restrictions may limit MIT's ability to respond quickly to changes in market conditions. MIT does have various sources of liquidity at its disposal, including cash, cash equivalents, marketable debt and equity securities, and lines of credit.

Details on the estimated remaining life, current redemption terms and restrictions by asset class and type of investment are provided in Table 9.

Table 9. Unfunded Commitments

	2014		2013			
Asset Class *(in thousands of dollars)*	Unfunded Commitments	Fair Value	Unfunded Commitments	Fair Value	Redemption Terms	Redemption Restrictions
Equity:						
Domestic	$ 9,983	$ 1,438,048	$ 21,958	$ 1,267,367	Redemption terms range from daily to annually with 120 days notice	Lock-up provisions range from none to 4 years
Foreign.	60,880	2,532,278	80,245	2,272,696	Redemption terms range from daily to annually with 180 days notice	Lock-up provisions range from none to 5 years
Absolute return . .	171,070	1,606,148	30,635	1,625,070	Redemption terms range from monthly with 30 business days notice to closed-end structures not available for redemption	Lock-up provisions range from none to not redeemable
Private	1,337,144	2,781,199	997,663	2,510,672	Closed-end funds not eligible for redemption	Not redeemable
Real estate	428,209	860,862	447,147	829,926	Closed-end funds not eligible for redemption	Not redeemable
Real assets	140,549	615,809	72,133	615,512	Redemption terms range from quarterly with 30 days notice for 1 fund to all other funds being closed-end funds not eligible for redemption	Not redeemable except for 1 fund with no lock-up provisions
Total	**$ 2,147,835**	**$ 9,834,344**	**$ 1,649,781**	**$ 9,121,243**		

B. Investments (continued)

MIT performs ongoing due diligence to determine that investment fair value is reasonable as of June 30, 2014 and 2013. In particular, to ensure that the valuation techniques for investments that are categorized within Level 3 of the fair value hierarchy are fair, consistent, and verifiable, MIT has established a Valuation Committee (the "Committee") that oversees the valuation processes and procedures and ensures that the policies are fair and consistently applied. The Committee is responsible for conducting annual reviews of the valuation policies, evaluating the overall fairness and consistent application of the valuation policies, and performing specific reviews of certain valuations reported. The Committee performs due diligence over the external managers and, based on this review, substantiates NAV as a practical expedient for estimates of fair value of its investments in external managers. The Committee is composed of senior personnel and contains members who are independent of investment functions. The Committee meets annually, or more frequently, as needed. Members of the Valuation Committee report annually to MIT's Risk and Audit Committee. The methods described previously in this footnote may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. While MIT believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

C. Derivative Financial Instruments and Collateral

MIT maintains an interest rate swap agreement to manage the interest cost and risk associated with a portion of its variable rate debt, described in Note G. Under the agreement, MIT pays a fixed rate of 4.91 percent and receives a payment indexed to the Securities Industry and Financial Market Association (SIFMA) index on a notional amount of $125.0 million. At June 30, 2014, the swap agreement had a total fair value of ($41.3) million and at June 30, 2013, had a fair value of ($40.7) million. This swap had a total net loss for 2014 of $0.6 million and a total net gain of $17.9 million for 2013. The notional amount of this derivative is not recorded on MIT's Statements of Financial Position.

For its investment management, MIT uses a variety of financial instruments with off-balance sheet risk involving contractual or optional commitments for future settlement. MIT uses these instruments primarily to manage its exposure to extreme market events and fluctuations in asset classes or currencies. Instruments utilized include futures, total return and credit default swaps, and interest rate cap and swaption agreements. The futures are exchange-traded and the swap, swaptions, and cap agreements are executed over the counter.

Total return swaps involve commitments to pay interest in exchange for a market-linked return, both based on notional amounts. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, MIT will receive a payment from or make a payment to the counterparty.

MIT's portfolio of interest rate caps and swaptions is designed for protection from significant increases in interest rates. An interest rate swaption is an option to enter into an interest rate swap agreement on pre-set terms at a future date. The purchaser and seller of the swaption agree on the expiration date, option type, exercise style, the terms of the underlying swap, and the type of settlement. As the expiration date approaches, the swaption holder can either notify the seller of its intention to exercise or let the option expire. An interest rate cap places a ceiling on a floating rate of interest on a specified notional principal amount for a specific term. The buyer of the cap uses the cap contract to limit its maximum interest rate exposure. If the buyer's floating rate rises above the cap strike, the cap contract provides for payments from the seller to the buyer of the cap for the difference between the floating rate and the cap strike. If the floating rate remains below the cap strike, no payments are required. The cap buyer is required to pay an upfront fee or premium for the cap. The cap premium charged by the seller depends upon the market's assessment of the probability that rates will move through the cap strike over the time horizon of the deal. The payoff is expected to occur in extreme market conditions that would negatively impact MIT's other assets.

Table 10 summarizes the notional exposure and net ending fair value relative to the financial instruments with off-balance sheet risk as of June 30, 2014 and 2013, related to MIT's investment management. Derivatives held by limited partnerships and commingled investment vehicles pose no off-balance sheet risk to MIT due to the limited liability structure of these investments. To manage the counterparty credit exposure of MIT's direct off-balance sheet financial instruments, MIT requires collateral to the maximum extent possible under normal trading practices. Collateral is moved on a daily basis as required by fluctuations in the market. The collateral is generally in the form of debt obligations issued by the US Treasury or cash. In the event of counterparty default, MIT has the right to use the collateral to offset the loss associated with the replacement of the agreements. MIT enters into arrangements only with counterparties believed to be creditworthy. On June 30, 2014, cash collateral and certain securities owned by MIT were held at counterparty brokers to collateralize these positions and are included in investments on the Statements of Financial Position.

C. Derivative Financial Instruments and Collateral (continued)

Table 10. Derivative Financial Instruments

(in thousands of dollars)	Notional Exposure Long	Notional Exposure Short	Net Ending Fair Value*	Net Gain (Loss)**
Fiscal Year 2014				
Fixed income instruments:				
Fixed income futures	$ -	$ (19,500)	$ 82	$ 126
Options on interest rate exchange agreements	2,090,500	(55,000)	19,276	(17,341)
Interest rate caps and floors	1,000,000	-	581	(1,928)
Interest rate swaps	-	-	-	(2,059)
Total fixed income instruments	3,090,500	(74,500)	19,939	(21,202)
Currency instruments:				
Currency forwards	-	-	-	-
Total currency instruments	-	-	-	-
Commodity and index instruments:				
Commodity futures	-	-	-	-
Equity index swaps	-	(47,519)	(2,548)	(4,958)
IOS index swaps	-	-	-	-
Total commodity and index futures	-	(47,519)	(2,548)	(4,958)
Credit instruments	10,269	(115,938)	(2,725)	(2,090)
2014 Total	**$ 3,100,769**	**$ (237,957)**	**$ 14,666**	**$ (28,250)**
Fiscal Year 2013				
Fixed income instruments:				
Fixed income futures	$ 3,200	$ (17,900)	$ 385	$ 415
Options on interest rate exchange agreements	2,577,777	(55,000)	36,901	4,609
Interest rate caps and floors	2,250,000	–	2,509	(955)
Interest rate swaps	–	–	–	(274)
Total fixed income instruments	4,830,977	(72,900)	39,795	3,795
Currency instruments:				
Currency forwards	–	–	–	347
Total currency instruments	–	–	–	347
Commodity and index instruments:				
Commodity futures	–	–	–	1,062
Equity index swaps	–	–	–	(6,181)
IOS index swaps	–	–	–	406
Total commodity and index futures	–	–	–	(4,713)
Credit instruments	19,498	(153,995)	(1,692)	(25,196)
2013 Total	**$ 4,850,475**	**$ (226,895)**	**$ 38,103**	**$ (25,767)**

** The fair value of all derivative financial instruments is reflected in investments at fair value in the Statements of Financial Position.*

*** Net gain (loss) from the derivative financial instruments is located in the non-operating section as net gain on investments and other assets in the Statement of Activities.*

C. Derivative Financial Instruments and Collateral (continued)

Table 11 provides further details related to MIT's credit instruments and summarizes the notional amounts and fair value of the purchased and written credit derivatives, classified by the expiration terms and the external credit ratings of the reference obligations at June 30, 2014 and 2013.

The act of entering into a credit default swap contract is often referred to as "buying protection" or "selling protection" on an underlying reference obligation. The buyer is obligated to make premium payments to the seller over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to the underlying obligation. The seller bears the obligation to "protect" the buyer in the event of default of the underlying issuer. Upon this event, the cash payment which the buyer receives is equal to the clearing price established by an auction of credit default swap claims, which is designed to approximate the recovery value of an unsecured claim on the issuer in default. The swap will last for a predetermined amount of time, typically five years. Upon termination of the swap, the buyer is no longer obligated to make any premium payments and there is no other exchange of capital.

Table 11. Credit Derivative Instruments

	Purchased Protection				Written Protection Notional Amount			
			Years to Maturity					
(in thousands of dollars)	Purchased Notional Amounts	Purchased Fair Value*	< 5 Years	5-10 Years	Written Notional Amounts***	Offsetting Purchased Credit Protection **	Net Written Credit Protection	Net Written Credit Protection Fair Value
Fiscal Year 2014								
Credit rating on underlying or index:								
A- to AAA	$ 68,692	$ (1,789)	$ 15,000	$ 53,692	$ 10,269	$ -	$ -	$ 120
BBB- to BBB+	36,977	(975)	5,000	31,977	-	(10,269)	-	(81)
2014 Total	**$ 105,669**	**$ (2,764)**	**$ 20,000**	**$ 85,669**	**$ 10,269**	**$ (10,269)**	**$ -**	**$ 39**
Fiscal Year 2013								
Credit rating on underlying or index:								
A- to AAA	$ 66,499	$ (1,168)	$ 20,000	$ 46,499	$ 19,498	$ -	$ -	$ 488
BBB- to BBB+	67,998	(1,012)	5,000	62,998	-	(19,498)	-	-
2013 Total	**$ 134,497**	**$ (2,180)**	**$ 25,000**	**$ 109,497**	**$ 19,498**	**$ (19,498)**	**$ -**	**$ 488**

** The fair value of all credit derivative instruments is reflected in investments at fair value in the Statements of Financial Position.*

*** Net gain (loss) of the credit derivative instruments is located in the non-operating section as net gain on investments and other assets in the Statement of Activities.*

**** The written and offsetting purchased credit protection held as of June 30, 2014 and 2013, has a maturity of less than five years.*

C. Derivative Financial Instruments and Collateral (continued)

Counterparty risk may be partially or completely mitigated through master netting agreements included within an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement between MIT and each of its counterparties. The ISDA Master Agreement allows MIT to offset with the counterparty certain derivative instruments' payables and/or receivables with collateral held with each counterparty. To the extent amounts due from the counterparties are not fully collateralized contractually or otherwise, there is the risk of loss from counterparty non-performance. As of June 30, 2014, MIT has elected not to offset recognized assets and liabilities in the Statements of Financial Position Investments Table. The following tables summarize the effect that offsetting of recognized assets and liabilities could have in the Statements of Financial Position Investments Table.

Table 12. Offsetting of Financial and Derivative Assets and Liabilities

	2014			2013		
(in thousands of dollars)	Gross Amount	Cash/Treasury Collateral Posted/ (Received)	Net Amount	Gross Amount	Cash/Treasury Collateral Posted/ (Received)	Net Amount
Assets						
Counterparty A	$ 9,250	$ (9,519)	$ (269)	$ 18,662	$ (19,204)	$ (542)
Counterparty B	46,243	(47,385)	(1,142)	35,158	(36,709)	(1,551)
Counterparty C	27	-	27	193	(300)	(107)
Counterparty D	-	-	-	-	-	-
Counterparty E	-	-	-	-	-	-
Counterparty F	-	-	-	-	-	-
Counterparty G	38,924	(39,709)	(785)	63,408	(64,685)	(1,277)
Counterparty H	42,200	(43,165)	(965)	43,714	(44,744)	(1,030)
Counterparty I	-	-	-	-	-	-
Counterparty J	-	-	-	-	(65)	(65)
Counterparty K	10,646	(10,599)	47	21,248	(23,042)	(1,794)
Total assets	**147,290**	**(150,377)**	**(3,087)**	**182,383**	**(188,749)**	**(6,366)**
Liabilities						
Counterparty A	(108)	130	22	(452)	-	(452)
Counterparty B	(692)	720	28	-	-	-
Counterparty C	-	-	-	-	-	-
Counterparty D	(362)	305	(57)	-	-	-
Counterparty E	(51)	205	154	(147)	60	(87)
Counterparty F	(399)	335	(64)	(280)	335	55
Counterparty G	(41,300)	-	(41,300)	(40,722)	-	(40,722)
Counterparty H	-	-	-	-	-	-
Counterparty I	(378)	420	42	(945)	1,120	175
Counterparty J	(801)	770	(31)	(719)	-	(719)
Counterparty K	(2,549)	2,549	-	-	-	-
Total liabilities	**(46,640)**	**5,434**	**(41,206)**	**(43,265)**	**1,515**	**(41,750)**
Total assets and liabilities, net	**$ 100,650**	**$ (144,943)**	**$ (44,293)**	**$ 139,118**	**$ (187,234)**	**$ (48,116)**

Maximum risk of loss from counterparty credit risk on over-the-counter derivatives is generally the aggregate unrealized appreciation in excess of any collateral pledged by the counterparty. ISDA Master Agreements allow MIT or the counterparties to an over-the-counter derivative to terminate the contract prior to maturity in the event either party fails to meet the terms in the ISDA Master Agreements. This would cause an accelerated payment of net liability, if owed to the counterparty.

C. Derivative Financial Instruments and Collateral (continued)

Table 13 below reconciles the net recognized assets and liabilities, as shown in Table 12, to derivative financial instruments as shown in Table 6.

Table 13. Reconciliation of Financial and Derivative Assets and Liabilities

(in thousands of dollars)	2014	2013
Derivatives from Table 6	$ (26,640)	$ (2,620)
Repurchase agreements	127,372	142,123
Fixed income futures	(82)	(385)
Total	**$ 100,650**	**$ 139,118**

D. Pledges Receivable

Table 14 below shows the time periods in which pledges receivable at June 30, 2014 and 2013 are expected to be realized.

Table 14. Pledges Receivable

(in thousands of dollars)	2014	2013
In one year or less	$ 156,094	$ 131,174
Between one year and five years	227,752	187,708
More than five years	160,760	130,662
Less: allowance for unfulfilled pledges	(54,270)	(44,950)
Pledges receivable, net	**$ 490,336**	**$ 404,594**

A review of pledges is periodically made with regard to collectability. As a result, the allowance for pledges that may not be fulfilled is adjusted, and some pledges have been cancelled and are no longer recorded in the financial statements. Pledges are discounted in the amount of $36.8 million and $34.2 million in 2014 and 2013, respectively. MIT has gross conditional pledges, not recorded, for the promotion of education and research of $39.3 million and $85.3 million in 2014 and 2013, respectively. MIT has pledges receivable relating to research in the amount of $21.4 million and $21.8 million in 2014 and 2013, respectively.

Pledges receivable are classified as Level 3 under the valuation hierarchy described in Note B.

Table 15 below is a rollforward of the pledges receivable at June 30, 2014 and 2013.

Table 15. Rollforward of Pledges Receivable

(in thousands of dollars)	2014	2013
Balance at the beginning of year	$ 404,594	$ 479,659
New pledges	191,973	99,062
Pledge payments received	(94,377)	(179,272)
Increase in pledge discount	(2,534)	(3,245)
(Increase) decrease in reserve for unfulfilled pledges	(9,320)	8,390
Balance at the end of year	**$ 490,336**	**$ 404,594**

E. Student Notes Receivable

Table 16 below details the components of student notes receivable at June 30, 2014 and 2013.

Table 16. Student Notes Receivable

(in thousands of dollars)	2014	2013
Institute-funded student notes receivable	$ 13,426	$ 14,004
Perkins student notes receivable	37,743	38,480
Total student notes receivable	51,169	52,484
Less: allowance for doubtful accounts	(3,000)	(3,000)
Student notes receivable, net	**$ 48,169**	**$ 49,484**

Perkins student notes receivable are funded by the US Government and by MIT. Funds advanced by the US Government for this program are ultimately refundable to the US Government and are classified as liabilities in US Government advances for student loans in the Statements of Financial Position. Due to the nature and terms of the student loans, which are subject to significant restrictions, it is not feasible to determine the fair value of such loans.

Allowance for Credit Losses

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. MIT's Perkins loans receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan Program are able to be assigned to the US Government in certain non-repayment situations. In these situations, the Federal portion of the loan balance is guaranteed.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the student loan receivable and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis.

Loans less than 120 days delinquent are deemed to have a minimal delay in payment and are generally not written off but are reserved in accordance with the terms discussed above. Loans more than 120 days delinquent are subject to standard collection practices, including litigation. Only loans that are deemed uncollectible are written off and this only occurs after several years of unsuccessful collection, including placement at more than one external collection agency.

Considering the other factors already discussed herein, management considers the allowance for credit losses at June 30, 2014 and 2013 to be prudent and reasonable. Furthermore, MIT's allowance is general in nature and is available to absorb losses from any loan category. Management believes that the allowance for credit losses at June 30, 2014 and 2013 is adequate to absorb credit losses inherent in the portfolio as of that date.

Changes in the allowance for credit losses for the years ended June 30, 2014 and 2013 were as shown in Table 17.

Table 17. Rollforward of Allowance for Credit Losses

(in thousands of dollars)	2014	2013
Balance at the beginning of year	$ 3,000	$ 3,000
Provision for credit losses	126	-
Net charge-offs	(126)	-
Balance at the end of year	**$ 3,000**	**$ 3,000**

F. Accounts Payable, Accruals, and Other Liabilities

MIT's accounts payable, accruals, and other liabilities at June 30, 2014 and 2013 are shown in Table 18 below.

Table 18. Accounts Payable, Accruals, and Other Liabilities

(in thousands of dollars)	2014	2013
Accounts payable and accruals	$ 352,668	$ 325,472
Accrued vacation	59,291	58,965
Total	**$ 411,959**	**$ 384,437**

G. Borrowings

MIT's outstanding borrowings at June 30, 2014 and 2013 are shown in Table 19 below.

Table 19. Borrowings

(in thousands of dollars / due dates are calendar based)	2014	2013
Educational plant		
Massachusetts Development Finance Agency (MassDevelopment)		
Series I, 5.20%, due 2028, par value $30,000*	$ 30,781	$ 59,563
Series J-1, variable rate, due 2031	125,000	125,000
Series J-2, variable rate, due 2031	125,000	125,000
Series K, 5.25–5.5%, due 2012–2032, par value $203,500	213,673	214,304
Series L, 3.0–5.25%, due 2004–2033, par value $141,670	151,017	177,651
Series M, 5.25%, due 2014–2030, par value $131,110	140,437	141,634
Series N, 3.5–5.0%, due 2014–2038, par value $325,195	327,965	329,010
Series O, 4.0–6.0%, due 2016–2036, par value $266,460	268,716	269,778
Total MassDevelopment	$ 1,382,589	$ 1,441,940
Medium Term Notes Series A, 7.125% due 2026	17,367	17,363
Medium Term Notes Series A, 7.25%, due 2096	45,449	45,447
Taxable Bonds, Series B, 5.60%, due 2111, par value $750,000**	746,987	746,956
Taxable Bonds, Series C, 4.68%, due 2114, par value $550,000**	550,000	-
Notes payable to bank, variable rate, due 2017	83,033	83,033
Total educational plant	$ 1,442,836	$ 892,799
Other		
Notes payable to bank, variable rate, due 2017	93,476	93,476
Total borrowings	**$ 2,918,901**	**$ 2,428,215**

** Series I-2, 4.75% due 2028, par value $29,200 was redeemed by MIT in April 2014.*

*** The proceeds of Taxable Bonds, Series B and C, were held as investments as of June 30, 2014 and 2013 and have yet to be invested in physical assets.*

Fair value of the outstanding debt is approximately 11.0 percent greater than the carrying value in 2014 and 2013. It is classified as Level 3 under the valuation hierarchy described in Note B. Fair value is based on estimates using current interest rates available for similarly rated debt of the same remaining maturities.

G. Borrowings (continued)

The aggregate amounts of debt principal payments and sinking fund requirements for each of the next five fiscal years are shown in Table 20 below.

Table 20. Debt Principal Obligations

(in thousands of dollars)	
2015	$ 59,110
2016	9,585
2017	274,599
2018	26,500
2019	26,000

MIT maintains a line of credit with a major financial institution for an aggregate commitment of $500.0 million. As of June 30, 2014, $323.5 million was available under this line of credit. The line of credit expires on March 31, 2017.

During 2014, MIT issued $550.0 million in taxable bonds at a rate of 4.678 percent for a period of 100 years. This will be used to finance a comprehensive strategy for the next phase of MIT's physical plant development. MIT has also redeemed a portion of the Series I bonds for $29.2 million.

Cash paid for interest on long-term debt in 2014 and 2013 was $107.2 million and $116.3 million, respectively.

Variable interest rates at June 30, 2014 are shown in Table 21 below.

Table 21. Variable Interest Rates

(in thousands of dollars)	Amount	Rate
MassDevelopment Series J-1	$ 125,000	0.03%
MassDevelopment Series J-2	125,000	0.05%
Notes payable to bank	176,509	0.75%

In the event that MIT receives notice of any optional tender on its Series J-1 and Series J-2 variable-rate bonds, or if these bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, MIT will be obligated to purchase the bonds tendered at 100 percent of par value on the tender date.

H. Commitments and Contingencies

Federal Government Funding

MIT receives funding or reimbursement from Federal agencies for sponsored research under Government grants and contracts. These grants and contracts provide for reimbursement of indirect costs based on rates negotiated with the Office of Naval Research (ONR), MIT's cognizant Federal agency. MIT's indirect cost reimbursements have been based on fixed rates with carryforward of under- or over-recoveries. At June 30, 2014 and 2013, MIT recorded a net over-recovery of $14.9 million and $26.9 million, respectively.

The DCAA is responsible for auditing indirect charges to grants and contracts in support of ONR's negotiating responsibility. MIT has final audited rates through 2009. MIT's 2014 research revenues of $1,528.9 million include reimbursement of indirect costs of $225.6 million, which includes the adjustment for the variance between the indirect cost income determined by the fixed rates and actual costs for 2014. In 2013, research revenues were $1,600.5 million, which included reimbursement of indirect costs of $219.7 million.

Leases

At June 30, 2014, there were no capital lease obligations. MIT is committed under certain operating (rental) leases. Rent expense incurred under operating lease obligations was $45.1 million and $40.5 million in 2014 and 2013, respectively. Future minimum payments under operating leases are shown in Table 22 below.

Table 22. Lease Obligations

(in thousands of dollars)	
2015	$ 36,929
2016	28,216
2017	23,709
2018	22,180
2019	18,849

Investments

As of June 30, 2014, $10.9 million of investments were pledged as collateral to various supplier and Government agencies.

H. Commitments and Contingencies (continued)

Future Construction

MIT has contracted for the educational plant in the amount of $182.3 million at June 30, 2014. It is expected that the resources to satisfy these commitments will be provided from unexpended plant funds, anticipated gifts, and unrestricted funds. MIT will be committing additional resources to planned major construction projects and improvements to the current infrastructure over the next several years.

Related Entities

MIT has entered into agreements, including collaborations with third-party not-for-profit and for-profit entities, for education, research, and technology transfers. Some of these agreements involve funding from foreign governments. These agreements subject MIT to greater financial risk than do its normal operations. In the opinion of management, the likelihood of realization of increased financial risks by MIT under these agreements is remote.

General

MIT is subject to certain other legal proceedings and claims that arise in the normal course of operations. In the opinion of management, the ultimate outcome of these actions will not have a material effect on MIT's financial position.

I. Functional Expense Classification

MIT's expenditures on a functional basis are shown in Table 23 below.

Table 23. Expenditures by Functional Classification

(in thousands of dollars)	2014	2013
General and administrative	$ 713,103	$ 681,505
Instruction and unsponsored research	777,382	692,032
Sponsored research	1,283,189	1,397,857
Auxiliary enterprises	129,692	124,358
Operation of Alumni Association	15,151	12,825
Total operating expenses	**$ 2,918,517**	**$ 2,908,577**

J. Retirement Benefits

MIT offers a defined benefit plan and a defined contribution plan to its employees. The plans cover substantially all MIT employees.

MIT also offers a postretirement welfare benefit plan (certain health care and life insurance benefits) for retired employees. Substantially all MIT employees may become eligible for those benefits if they reach a qualifying retirement age while working for MIT. The health care component of the welfare plan is paid for in part by retirees, their covered dependents, and beneficiaries. Benefits are provided through various insurance companies whose charges are based either on the claims and administrative expenses paid during the year or annual insured premiums. The life insurance component of the welfare plan includes basic life insurance and supplemental life insurance. The basic life insurance plan is non-contributory and covers the retiree only. The supplemental life insurance plan is paid for by the retiree. MIT maintains a trust to pay for postretirement welfare benefits.

MIT contributes to the defined benefit plan amounts that are actuarially determined to provide the retirement plan with sufficient assets to meet future benefit requirements. There was a $20.4 million and $33.0 million contribution to the defined benefit plan in 2014 and 2013, respectively. MIT also contributed $31.5 million and $35.6 million to the postretirement welfare benefit plan in 2014 and 2013, respectively.

For purposes of calculating net periodic cost for the defined benefit plan, plan amendments are amortized on a straight-line basis over the average future service to expected retirement of active participants at the date of the amendment. Cumulative gains and losses (including changes in assumptions) in excess of 10 percent of the greater of the projected benefit obligation or the market-related value of assets are amortized over the average future service of active participants. The annual amortization shall not be less than the total amount of unrecognized gains and losses up to $1.0 million.

J. Retirement Benefits (continued)

The amount contributed and expenses recognized during 2014 and 2013 related to the defined contribution plan were $48.6 million and $46.2 million, respectively.

For purposes of calculating net periodic cost for the postretirement welfare benefit plan, a portion of the current obligation related to the transition to the accounting standard *Employers' Accounting for Postretirement Benefits Other than Pensions*, was amortized on a straight-line basis over 20 years from the date of adoption of that statement in 1994.

Plan amendments are amortized on a straight-line basis over the average future service to full eligibility of active participants at the date of amendment. Cumulative gains and losses (including changes in assumptions) in excess of 10 percent of the greater of the plan's obligation or the market-related value of assets are amortized over the average future service of active participants. The annual amortization shall not be less than the total amount of unrecognized gains and losses up to $1.0 million.

Components of Net Periodic Benefit Cost

Table 24 summarizes the components of net periodic benefit cost recognized in operating activity and other amounts recognized in non-operating activity in unrestricted net assets for the years ended June 30, 2014 and 2013.

Table 24. Components of Net Periodic Benefit Cost

	Defined Benefit Plan		Postretirement Welfare Benefit Plan	
(in thousands of dollars)	2014	2013	2014	2013
Components of net periodic benefit cost recognized in operating activity:				
Service cost	$ 71,661	$ 77,093	$ 22,079	$ 23,004
Interest cost	141,213	130,187	24,210	22,087
Expected return on plan assets	(207,532)	(211,063)	(27,204)	(24,786)
Amortization of net actuarial loss	14,066	17,542	5,822	10,642
Amortization of prior service cost	953	1,018	(2,801)	(2,801)
Net periodic benefit cost recognized in operating activity	**$ 20,361**	**$ 14,777**	**$ 22,106**	**$ 28,146**
Other amounts recognized in non-operating activity in unrestricted net assets:				
Current year actuarial gain	(25,547)	(230,545)	(10,811)	(54,496)
Amortization of actuarial gain	(14,066)	(17,542)	(5,822)	(10,642)
Amortization of prior service cost	(953)	(1,018)	2,801	2,801
Total other amounts recognized in non-operating activity	**$ (40,566)**	**$ (249,105)**	**$ (13,832)**	**$ (62,337)**
Total recognized	**$ (20,205)**	**$ (234,328)**	**$ 8,274**	**$ (34,191)**

The estimated net actuarial loss and prior service cost for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost during the next fiscal year are $24.6 million and $1.0 million, respectively. The estimated net actuarial loss and prior service credit for the postretirement welfare benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost during the next fiscal year are $6.1 million and $(2.8) million, respectively.

J. Retirement Benefits (continued)

Cumulative amounts recognized as non-operating changes in unrestricted net assets are summarized in Table 25 for the years ended June 30, 2014 and 2013.

Table 25. Cumulative Amounts Recognized in Unrestricted Net Assets

	Defined Benefit Plan		Postretirement Welfare Benefit Plan	
(in thousands of dollars)	2014	2013	2014	2013
Amounts recognized in unrestricted net assets consist of:				
Net actuarial loss	$ 283,726	$ 323,339	$ 56,937	$ 73,570
Prior service cost / (credit)	2,880	3,833	(16,216)	(19,017)
Total cumulative amounts recognized in unrestricted net assets	**$ 286,606**	**$ 327,172**	**$ 40,721**	**$ 54,553**

Benefit Obligations and Fair Value of Assets

Table 26 summarizes the benefit obligations, plan assets, and amounts recognized in the Statements of Financial Position for MIT's retirement benefit plans. MIT uses a June 30 measurement date for its defined benefit and postretirement welfare benefit plans.

Table 26. Projected Benefit Obligations and Fair Value of Assets

	Defined Benefit Plan		Postretirement Welfare Benefit Plan	
(in thousands of dollars)	2014	2013	2014	2013
Change in projected benefit obligations:				
Projected benefit obligations at the beginning of year	$ 2,803,784	$ 2,890,587	$ 479,117	$ 489,475
Service cost	71,661	77,093	22,079	23,004
Interest cost	141,213	130,187	24,210	22,086
Retiree contributions	-	–	4,346	4,066
Net benefit payments, transfers, and other expenses	(124,927)	(144,222)	(23,512)	(22,913)
Assumption changes and actuarial net loss (gain)	248,973	(149,861)	33,022	(36,601)
Projected benefit obligations at the end of year	**$ 3,140,704**	**$ 2,803,784**	**$ 539,262**	**$ 479,117**
Change in plan assets:				
Fair value of plan assets at the beginning of year	2,758,276	2,577,752	414,981	358,912
Actual return on plan assets	482,053	291,747	71,038	42,681
Employer contributions	20,362	33,000	31,514	35,624
Retiree contributions	-	–	4,346	4,066
Net benefit payments, transfers, and other expenses	(124,927)	(144,223)	(26,507)	(26,302)
Fair value of plan assets at the end of year	**3,135,764**	**2,758,276**	**495,372**	**414,981**
Unfunded status at the end of year	**$ (4,940)**	**$ (45,508)**	**$ (43,890)**	**$ (64,136)**
Amounts recognized in the Statements of Financial Position consist of:				
Total accrued benefit liabilities	**$ (4,940)**	**$ (45,508)**	**$ (43,890)**	**$ (64,136)**

J. Retirement Benefits (continued)

The accumulated benefit obligation for MIT's defined benefit plan was $2,922.1 million and $2,620.4 million at June 30, 2014 and 2013, respectively.

MIT provides retiree drug coverage through an Employer Group Waiver Plan (EGWP). Under EGWP, the cost of drug coverage is offset through direct Federal subsidies, brand-name drug discounts, and reinsurance reimbursements.

Assumptions and Health Care Trend Rates

Table 27 summarizes assumptions and health care trend rates. The expected long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The long-term rate of return assumption is determined based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the plans, historical plan return data, plan expenses, and the potential to outperform market index returns.

Table 27. Assumptions

	Defined Benefit Plan		Postretirement Welfare Benefit Plan	
(in thousands of dollars)	2014	2013	2014	2013
Assumptions used to determine benefit obligation as of June 30:				
Discount rate	4.50%	5.03%	4.43%	4.95%
Rate of compensation increase*	4.00%	4.00%		
Assumptions used to determine net periodic benefit cost for year ended June 30:				
Discount rate	5.03%	4.49%	4.95%	4.41%
Expected long-term return on plan assets	8.00%	8.00%	7.00%	7.00%
Rate of compensation increase*	4.00%	4.00%		
Assumed health care cost trend rates:				
Health care cost trend rate assumed for next year			7.00%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.75%	4.75%
Year the rate reaches the ultimate trend rate			2021	2021

** The average rate of salary increase is assumed to be 4.00% for 2015 and thereafter.*

As an indicator of sensitivity, a one percentage point change in the assumed health care cost trend rate would affect 2014 as shown in Table 28 below.

Table 28. Health Care Cost Trend Rate Sensitivity

(in thousands of dollars)	1% Point Increase	1% Point Decrease
Effect on 2014 postretirement service and interest cost	$ 7,178	$ (5,864)
Effect on postretirement benefit obligation as of June 30, 2014	70,886	(58,983)

The investment objectives for the assets of the plans are to minimize expected funding contributions and to meet or exceed the rate of return assumed for plan funding purposes over the long term. The nature and duration of benefit obligations, along with assumptions concerning asset class returns and return correlations, are considered when determining an appropriate asset allocation to achieve the investment objectives.

Investment policies and strategies governing the assets of the plans are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of external investment managers, the maintenance of a portfolio diversified by asset class, investment approach, security holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

J. Retirement Benefits (continued)

Tables 29A and 29B present investments at fair value of MIT's defined benefit plan and postretirement welfare benefit plan, which are included in plan net assets as of June 30, 2014 and 2013, grouped by the valuation hierarchy detailed in Note B. There were no transfers between Level 1 and Level 2 fair value measurements in 2014 or 2013. Transfers between Level 2 and Level 3 result from the expiration or commencements of lock-ups which impact MIT's ability to exit the fund within twelve months. The 2014 transfers for absolute return, shown in Table 30, include $67.3 million out of and $53.0 million into Level 3 investments for the defined benefit plan and $6.9 million out of and $25.0 million into Level 3 investments for the postretirement welfare benefit plan. All other categories reflect the gross activity.

Table 29A. Defined Benefit Plan Investments

(in thousands of dollars)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fiscal Year 2014				
Cash and cash equivalents	$ 307,951	$ -	$ -	$ 307,951
US Treasury	262,062	-	-	262,062
US Government agency	-	14,816	-	14,816
Domestic bonds	-	-	-	-
Common equity:				
Long domestic	34,248	-	909	35,157
Long foreign	66,543	-	-	66,543
Equity:*				
Absolute return	-	52,266	287,384	339,650
Domestic	-	74,224	326,757	400,981
Foreign	-	205,456	454,749	660,205
Private	-	-	545,295	545,295
Real estate	-	-	311,942	311,942
Real assets*	-	1,347	177,806	179,153
Other	-	-	1,191	1,191
Derivatives	24	(1,265)	-	(1,241)
Total plan investments	**$ 670,828**	**$ 346,844**	**$ 2,106,033**	**$ 3,123,705**
Fiscal Year 2013				
Cash and cash equivalents	$ 197,341	$ –	$ –	$ 197,341
US Treasury	194,191	–	–	194,191
US Government agency	–	19,667	–	19,667
Domestic bonds	–	65,178	–	65,178
Common equity:				
Long domestic	43,518	–	2,100	45,618
Long foreign	1,740	–	–	1,740
Equity:*				
Absolute return	–	94,411	266,407	360,818
Domestic	–	-	378,862	378,862
Foreign	–	220,858	344,298	565,156
Private	–	–	455,850	455,850
Real estate	–	–	316,977	316,977
Real assets*	205	1,119	166,597	167,921
Derivatives	82	–	–	82
Total plan investments	**$ 437,077**	**$ 401,233**	**$ 1,931,091**	**$ 2,769,401**

** Real assets and equity categories include commingled vehicles that invest in these types of investments.*

J. Retirement Benefits (continued)

Table 29B. Postretirement Welfare Benefit Plan Investments

(in thousands of dollars)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fiscal Year 2014				
Cash and cash equivalents	$ 35,960	$ -	$ -	$ 35,960
Domestic bonds**	-	78,182	-	78,182
Common equity:				
Long domestic	26,789	-	-	26,789
Long foreign	5,022	-	-	5,022
Equity:*				
Absolute return	-	6,061	63,494	69,555
Domestic	-	21,904	43,115	65,019
Foreign	-	95,407	60,937	156,344
Private	-	-	32,033	32,033
Real estate	-	-	20,677	20,677
Real assets*	-	-	6,032	6,032
Total plan investments	**$ 67,771**	**$ 201,554**	**$ 226,288**	**$ 495,613**
Fiscal Year 2013				
Cash and cash equivalents	$ 23,812	$ –	$ –	$ 23,812
Domestic bonds**	–	76,485	–	76,485
Common equity:				
Long domestic	26,646	–	–	26,646
Long foreign	220	–	–	220
Equity:*				
Absolute return	–	28,802	40,018	68,820
Domestic	–	–	62,147	62,147
Foreign	–	41,273	71,597	112,870
Private	–	–	20,826	20,826
Real estate	–	–	18,053	18,053
Real assets*	–	–	5,254	5,254
Total plan investments	**$ 50,678**	**$ 146,560**	**$ 217,895**	**$ 415,133**

** Real assets and equity categories include commingled vehicles that invest in these types of investments.*

*** Includes one common collective trust*

J. Retirement Benefits (continued)

Table 30 is a rollforward of the investments classified by MIT's defined benefit plan and postretirement welfare benefit plan within Level 3 of the fair value hierarchy defined in Note B as at June 30, 2014 and 2013.

Table 30. Rollforward of Level 3 Investments

(in thousands of dollars)	Fair Value Beginning	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Transfer of Assets Between Levels	Fair Value Ending
Defined Benefit Plan							
Fiscal Year 2014							
Common equity:							
Long domestic	$ 2,100	$ -	$ -	$ -	$ -	$ (1,191)	$ 909
Long foreign	-	-	-	-	-	-	-
Equity:							
Absolute return	266,407	50,717	9,928	89,311	(114,649)	(14,330)	287,384
Domestic	378,862	23,930	61,969	1,225	(74,011)	(65,218)	326,757
Foreign	344,298	8,084	80,685	72,188	(44,240)	(6,266)	454,749
Private	455,850	48,444	75,941	70,741	(105,681)	-	545,295
Real estate	316,977	17,295	12,388	46,686	(81,404)	-	311,942
Real assets	166,597	4,382	16,418	9,454	(19,045)	-	177,806
Other	-	-	-	-	-	1,191	1,191
Total	**$ 1,931,091**	**$ 152,852**	**$ 257,329**	**$ 289,605**	**$ (439,030)**	**$ (85,814)**	**$ 2,106,033**
Fiscal Year 2013							
Common equity:							
Long domestic	$ 2,100	$ –	$ –	$ 909	$ (909)	$ –	$ 2,100
Long foreign	–	6	–	–	(6)	–	–
Equity:							
Absolute return	289,429	27,169	(1,018)	92,136	(151,696)	10,387	266,407
Domestic	297,799	1,690	65,532	80,463	(69,549)	2,927	378,862
Foreign	158,171	-	45,583	230,398	(32,620)	(57,234)	344,298
Private	431,578	33,458	14,517	81,197	(104,900)	–	455,850
Real estate	294,379	5,552	19,976	64,596	(67,526)	–	316,977
Real assets	157,611	4,336	998	21,553	(17,901)	–	166,597
Total	**$ 1,631,067**	**$ 72,211**	**$ 145,588**	**$ 571,252**	**$ (445,107)**	**$ (43,920)**	**$ 1,931,091**
Postretirement Welfare Benefit Plan							
Fiscal Year 2014							
Equity:							
Absolute return	$ 40,018	$ 6,519	$ 5,558	$ 24,587	$ (31,314)	$ 18,126	$ 63,494
Domestic	62,147	5,868	6,703	138	(19,059)	(12,682)	43,115
Foreign	71,597	861	11,111	10,694	(3,362)	(29,964)	60,937
Private	20,826	1,559	5,165	7,950	(3,467)	-	32,033
Real estate	18,053	1,230	1,328	4,887	(4,821)	-	20,677
Real assets	5,254	109	1,102	405	(838)	-	6,032
Total	**$ 217,895**	**$ 16,146**	**$ 30,967**	**$ 48,661**	**$ (62,861)**	**$ (24,520)**	**$ 226,288**
Fiscal Year 2013							
Equity:							
Absolute return	$ 21,705	$ 747	$ 2,388	$ 9,436	$ (10,127)	$ 15,869	$ 40,018
Domestic	49,236	32	10,721	11,718	(9,885)	325	62,147
Foreign	5,906	-	9,728	54,518	(5,383)	6,828	71,597
Private	16,936	869	705	7,307	(4,991)	–	20,826
Real estate	14,627	309	1,695	6,695	(5,273)	–	18,053
Real assets	3,502	410	(2)	1,935	(591)	–	5,254
Total	**$ 111,912**	**$ 2,367**	**$ 25,235**	**$ 91,609**	**$ (36,250)**	**$ 23,022**	**$ 217,895**

J. Retirement Benefits (continued)

The plans have made investments in various long-lived partnerships, and in other cases have entered into contractual arrangements that may limit their ability to initiate redemptions due to notice periods, lock-ups, and gates. Details on estimated remaining life, current redemption terms and restrictions by asset class and type of investment for both the defined benefit plan and postretirement welfare benefit plan are provided in Table 31 below as of June 30, 2014 and 2013.

Table 31. Unfunded Commitments

Asset Class *(in thousands of dollars)*	2014 Unfunded Commitments	2014 Fair Value	2013 Unfunded Commitments	2013 Fair Value	Redemption Terms	Redemption Restrictions
Defined Benefit Plan						
Equity:						
Domestic	$ 1,027	$ 400,981	$ 2,126	$ 378,862	Redemption terms range from monthly to annually with 120 days notice	Lock-up provisions range from none to 4 years
Foreign	11,760	660,205	21,600	565,156	Redemption terms range from daily to annually with 90 days notice	Lock-up provisions range from none to 5 years
Absolute return	44,824	339,650	25,251	360,818	Redemption terms range from monthly with 30 business days notice to closed-end structures not available for redemption	Lock-up provisions range from none to not redeemable
Private	269,612	545,295	191,245	455,850	Closed-end funds not eligible for redemption	Not redeemable
Real estate	135,912	311,942	150,491	316,977	Closed-end funds not eligible for redemption	Not redeemable
Real assets	37,447	176,446	21,503	167,921	Closed-end funds not eligible for redemption	Not redeemable
Totals	**$ 500,582**	**$ 2,434,519**	**$ 412,216**	**$ 2,245,584**		
Postretirement Welfare Benefit Plan						
Equity:						
Domestic	$ 114	$ 65,018	$ 236	$ 62,147	Redemption terms range from daily to annually with 120 days notice	Lock-up provisions range from none to 4 years
Foreign	1,560	156,344	2,400	112,870	Redemption terms range from daily to annually with 90 days notice	Lock-up provisions range from none to 5 years
Absolute return	3,697	69,554	1,266	68,820	Redemption terms range from monthly with 30 business days notice to closed-end structures not available for redemption	Lock-up provisions range from none to not redeemable
Private	33,669	32,032	19,038	20,826	Closed-end funds not eligible for redemption	Not redeemable
Real estate	13,722	20,677	13,342	18,053	Closed-end funds not eligible for redemption	Not redeemable
Real assets	4,675	6,032	2,004	5,254	Closed-end funds not eligible for redemption	Not redeemable
Totals	**$ 57,437**	**$ 349,657**	**$ 38,286**	**$ 287,970**		

J. Retirement Benefits (continued)

Target allocations and weighted-average asset allocations of the investment portfolio for the MIT defined benefit plan and postretirement welfare benefit plan at June 30, 2014 and 2013 are shown in Table 32.

Table 32. Plan Investment Allocation

	Defined Benefit Plan			Postretirement Welfare Benefit Plan		
	2014 Target Allocation	2014	2013	2014 Target Allocation	2014	2013
Cash and cash equivalents	0–10%	10%	7%	0–10%	7%	6%
Fixed income	3–13%	8%	10%	10–20%	16%	18%
Equities	34.5–74.5%	55%	52%	37–77%	58%	54%
Marketable alternatives	7.5–17.5%	11%	13%	10.5–20.5%	14%	17%
Real assets	4–14%	6%	6%	0–7.5%	1%	1%
Real estate	6–16%	10%	12%	0–10%	4%	4%
Total		**100%**	**100%**		**100%**	**100%**

Table 33 summarizes the notional exposure and net ending fair value of derivative financial instruments held by the MIT defined benefit plan at June 30, 2014 and 2013. Refer to Note C for a detailed discussion regarding derivative financial instruments.

Table 33. Derivative Financial Instruments for Defined Benefit Plan

	Notional Exposure			
(in thousands of dollars)	Long	Short	Net Ending Fair Value Amount	Net Gain (Loss)
Fiscal Year 2014				
Fixed income instruments:				
Fixed income futures	$ 200	$ (4,700)	$ 24	$ 73
Interest rate swaps	-	-	-	-
Total fixed income instruments	200	(4,700)	24	73
Currency forwards and other instruments	-	-	-	-
Commodity and index instruments:				
Equity index swaps	-	(23,573)	(1,265)	(89)
Credit instruments	-	-	-	-
2014 Total	**$ 200**	**$ (28,273)**	**$ (1,241)**	**$ (16)**
Fiscal Year 2013				
Fixed income instruments:				
Fixed income futures	$ 3,600	$ (5,500)	$ 82	$ 91
Interest rate swaps	–	–	–	(43)
Total fixed income instruments	3,600	(5,500)	82	48
Currency forwards and other instruments	–	–	–	6
Commodity and index instruments:				
Fixed income index swaps	–	–	–	157
Credit instruments	–	–	–	(1,372)
2013 Total	**$ 3,600**	**$ (5,500)**	**$ 82**	**$ (1,161)**

J. Retirement Benefits (continued)

Counterparty risk may be partially or completely mitigated through master netting agreements included within an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement between the Plan and each of its counterparties. The ISDA Master Agreement allows the Plan to offset with the counterparty certain derivative instruments' payables and/or receivables with collateral held with each counterparty.

To the extent amounts due from the counterparties are not fully collateralized contractually or otherwise, there is the risk of loss from counterparty non-performance. As of June 30, 2014, the Plan has elected not to offset recognized assets and liabilities in the Defined Benefit Plan Investments Table. The following tables summarize the effect that offsetting of recognized assets and liabilities could have in the Defined Benefit Plan Investments Table.

Table 34. Offsetting of Financial and Derivative Assets and Liabilities

(in thousands of dollars)	Gross Amount	Cash/Treasury Collateral Posted/ (Received)	Net Amount
Fiscal Year 2014			
Assets			
Counterparty A	$ -	$ -	$ -
Total assets	**$ -**	**$ -**	**$ -**
Liabilities			
Counterparty A	$ (1,265)	$ 1,330	$ 65
Total liabilities	**$ (1,265)**	**$ 1,330**	**$ 65**

Maximum risk of loss from counterparty credit risk on over-the-counter derivatives is generally the aggregate unrealized appreciation in excess of any collateral pledged by the counterparty. ISDA Master Agreements allow the Plan or the counterparties to an over-the-counter derivative to terminate the contract prior to maturity in the event either party fails to meet the terms in the ISDA Master Agreements. This would cause an accelerated payment of net liability, if any, owed to the counterparty.

Table 35 below reconciles the Net of the Recognized Assets and Liabilities as shown in Table 34, to Derivative Financial Instruments as shown in Table 29A.

Table 35. Reconciliation of Financial and Derivative Assets and Liabilities

(in thousands of dollars)	2014	2013
Derivatives from Table 29A	$ (1,241)	$ 82
Fixed income futures	(24)	(82)
Total	**$ (1,265)**	**$ -**

J. Retirement Benefits (continued)

Expected Future Contributions and Benefit Payments

In 2015, MIT expects to make contributions of $26.0 million and $23.0 million to its defined benefit pension plan and postretirement welfare benefit plan, respectively. These contributions have been estimated based on the same assumptions used to measure MIT's benefit obligations at June 30, 2014.

Table 36 reflects total expected future benefit payments for the defined benefit and postretirement welfare benefit plans. These payments have been estimated based on the same assumptions used to measure MIT's benefit obligations at June 30, 2014.

Table 36. Expected Future Benefit Payments

(in thousands of dollars)	Pension Benefits	Other Benefits*
2015	$ 144,620	$ 25,914
2016	157,042	28,789
2017	163,393	31,362
2018	169,961	33,551
2019	176,522	35,223
2020–2024	957,245	198,352

** Other benefits reflect the total net benefits expected to be paid from the plans (e.g., gross benefit reimbursement offset by retiree contributions).*

K. Components of Net Assets and Endowment

Table 37 presents the total net assets composition as of June 30, 2014. The amounts listed in the unrestricted category under endowment funds are those gifts and other funds received over the years that MIT designated as funds functioning as endowment and invested with the endowment funds.

A large component of temporarily restricted net assets in other invested funds is pledges, the majority of which will be reclassified to unrestricted net assets when cash is received.

Table 37. Total Net Asset Composition

	2014				
(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2013 Total
Endowment Funds					
General purpose	$ 832,414	$ 1,016,869	$ 218,611	$ 2,067,894	$ 1,823,228
Departments and research	567,946	969,512	576,918	2,114,376	1,809,843
Library	11,178	21,707	12,907	45,792	36,152
Salaries and wages	508,677	2,447,016	674,309	3,630,002	3,166,030
Graduate general	82,833	136,905	94,642	314,380	260,262
Graduate departments	106,592	325,652	227,694	659,938	556,527
Undergraduate	209,189	1,032,416	338,519	1,580,124	1,376,155
Prizes	8,069	28,657	20,290	57,016	49,194
Miscellaneous	1,033,613	191,113	381,820	1,606,546	1,473,414
Investment income held for distribution	349,063	-	-	349,063	307,171
Endowment funds before pledges	3,709,574	6,169,847	2,545,710	12,425,131	10,857,976
Pledges	-	-	164,647	164,647	147,956
Total endowment funds	3,709,574	6,169,847	2,710,357	12,589,778	11,005,932
Other Invested Funds					
Student loan funds	20,331	-	17,511	37,842	37,779
Building funds	57,490	76,602	-	134,092	135,343
Designated purposes:					
Departments and research	304,097	-	-	304,097	265,216
Other purposes	441,286	50,866	-	492,152	462,749
Real estate gift held for sale	4,165	-	-	4,165	7,237
Life income funds	6,300	37,300	114,443	158,043	135,385
Pledges	-	325,688	-	325,688	256,638
Other funds available for current expenses	1,306,496	57,922	-	1,364,418	971,888
Funds expended for educational plant	617,392	-	-	617,392	580,044
Total other invested funds	2,757,557	548,378	131,954	3,437,889	2,852,279
Noncontrolling interests	287,825	-	-	287,825	274,663
Total net assets at fair value	**$ 6,754,956**	**$ 6,718,225**	**$ 2,842,311**	**$ 16,315,492**	**$ 14,132,874**

K. Components of Net Assets and Endowment (continued)

MIT's endowment consists of approximately 3,500 individual funds established for a variety of purposes, and includes both donor-restricted endowment funds and funds designated by the Executive Committee of the MIT Corporation (Executive Committee) to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Executive Committee to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Executive Committee has interpreted the Massachusetts-enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing MIT to appropriate for expenditure or accumulate so much of an endowment fund as MIT determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Executive Committee. As a result of this interpretation, MIT has not changed the way permanently restricted net assets are classified. See Note A for further information on net asset classification. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Executive Committee considers the following factors in making a determination to appropriate or accumulate endowment funds:

i. the duration and preservation of the fund
ii. the purposes of MIT and the endowment fund
iii. general economic conditions
iv. the possible effects of inflation and deflation
v. the expected total return from income and the appreciation of investments
vi. other resources of MIT
vii. the investment policies of MIT

Table 38. Endowment Net Asset Composition by Type of Fund

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fiscal Year 2014				
Donor-restricted endowment funds.	$ -	$ 6,169,847	$ 2,710,357	$ 8,880,204
Board-designated endowment funds	3,709,574	-	-	3,709,574
Total endowment funds	**$ 3,709,574**	**$ 6,169,847**	**$ 2,710,357**	**$ 12,589,778**
Fiscal Year 2013				
Donor-restricted endowment funds.	$ (1,191)	$ 5,171,454	$ 2,605,576	$ 7,775,839
Board-designated endowment funds	3,230,093	-	-	3,230,093
Total endowment funds.	**$ 3,228,902**	**$ 5,171,454**	**$ 2,605,576**	**$ 11,005,932**

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (underwater). When underwater endowment funds exist, they are classified as a reduction of unrestricted net assets.

As of June 30, 2014, there were no underwater endowment funds reported in unrestricted net assets. Total underwater endowment funds reported in unrestricted net assets were $1.2 million as of June 30, 2013. The underwater status of these funds resulted from unfavorable market fluctuations.

K. Components of Net Assets and Endowment (continued)

Table 39. Changes in Endowment Net Assets

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fiscal Year 2014				
Endowment net assets, July 1, 2013	$ 3,228,902	$ 5,171,454	$ 2,605,576	$ 11,005,932
Investment return:				
Investment income	26,120	51,051	17,590	94,761
Net appreciation (realized and unrealized)	576,974	1,294,684	(59,564)	1,812,094
Total investment return	603,094	1,345,735	(41,974)	1,906,855
Contributions	-	-	117,208	117,208
Appropriation of endowment assets for expenditure	(158,367)	(346,848)	(10,216)	(515,431)
Other changes				
Underwater gain adjustment	1,191	(1,191)	-	-
Net asset reclassifications and transfers to create board-designated endowment funds	34,754	697	39,763	75,214
Endowment net assets, June 30, 2014	**$ 3,709,574**	**$ 6,169,847**	**$ 2,710,357**	**$ 12,589,778**
Fiscal Year 2013				
Endowment net assets, July 1, 2012	$ 3,003,203	$ 4,786,012	$ 2,519,059	$ 10,308,274
Investment return:				
Investment income	19,388	48,080	13,054	80,522
Net appreciation (realized and unrealized)	294,247	669,225	15,983	979,455
Total investment return	313,635	717,305	29,037	1,059,977
Contributions	–	–	67,718	67,718
Appropriation of endowment assets for expenditure	(151,382)	(330,147)	(17,770)	(499,299)
Other changes				
Underwater gain adjustment	2,253	(2,253)	–	–
Net asset reclassifications and transfers to create board-designated endowment funds	61,193	537	7,532	69,262
Endowment net assets, June 30, 2013	**$ 3,228,902**	**$ 5,171,454**	**$ 2,605,576**	**$ 11,005,932**

K. Components of Net Assets and Endowment (continued)

Investment and Spending Policies

MIT maintains its investments primarily in two investment pools: Pool A, principally for endowment and funds functioning as endowment, and Pool C, principally for investment of current funds of MIT's schools and departments and MIT's operating funds. Pool A operates as a mutual fund with units purchased and redeemed based on the previous month's unit market value of Pool A. The total market value of Pool A was $13,654.9 million at June 30, 2014, and $11,753.8 million at June 30, 2013. Pool A includes certain operating and life income funds totaling $1,512.6 million at June 30, 2014, and $1,331.3 million at June 30, 2013. Certain assets are also maintained in separately invested funds. Separately invested funds totaled $282.8 million at June 30, 2014, and $435.4 million at June 30, 2013.

MIT has adopted endowment investment and spending policies designed to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of endowment assets. An additional investment goal is to maximize return relative to appropriate risk such that performance exceeds appropriate benchmark returns at the total pool, asset class, and individual manager levels.

To achieve its long-term rate-of-return objectives, MIT relies on a total return strategy in which investment returns are realized through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). MIT targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The Executive Committee of the Corporation votes to distribute funds for operational support from general investments. In accordance with MIT's spending policy, these distributions are funded from both investment income and market appreciation. The distribution rates were $62.90 and $60.84 per Pool A unit as of June 30, 2014 and 2013, respectively. In 2014, the amount distributed for spending from Pool A and Pool C totaled $623.5 million, compared to $585.8 million distributed in 2013. Included in this amount was a special distribution of $31.1 million and $24.0 million from gains in Pool C in 2014 and 2013, respectively. During 2014, distributions from separately invested funds were $10.9 million, compared to $18.8 million in 2013. The income earned in Pool C, or currently invested funds, was fully distributed.

Independent Auditor's Report

To the Risk and Audit Committee of the
Massachusetts Institute of Technology:

We have audited the accompanying consolidated financial statements of the Massachusetts Institute of Technology (the "Institute"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Institute's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Institute of Technology at June 30, 2014, and the changes in their net assets, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited the Massachusetts Institute of Technology's 2013 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated September 13, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

September 12, 2014

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Massachusetts Institute of Technology
Five-Year Trend Analysis – Financial Highlights

(in thousands of dollars)	2014	2013	2012	2011	2010
Financial Position					
Investments, at fair value	$ 16,228,756	$ 13,830,100	$ 12,847,866	$ 12,236,531	$ 9,950,239
Land, buildings, and equipment, at cost less accumulated depreciation	2,624,271	2,516,264	2,497,711	2,451,479	2,327,810
Borrowings	2,918,901	2,428,215	2,460,002	2,467,825	1,728,526
Total assets	20,358,797	17,719,840	16,738,758	16,052,231	13,415,618
Total liabilities	4,043,305	3,586,966	3,939,414	3,664,500	3,091,313
Unrestricted net assets	6,754,956	5,775,618	4,888,952	4,885,321	3,759,301
Temporarily restricted net assets	6,718,225	5,644,291	5,297,554	5,044,519	4,463,066
Permanently restricted net assets	2,842,311	2,712,965	2,612,838	2,457,891	2,101,938
Total net assets	16,315,492	14,132,874	12,799,344	12,387,731	10,324,305
Total endowment funds before pledges	12,425,131	10,857,976	10,149,564	9,712,628	8,317,321
Principal Sources of Revenues					
Tuition and similar revenues	$ 595,801	$ 568,957	$ 527,702	$ 493,777	$ 468,570
Research revenues:					
Campus direct	480,483	473,220	471,155	456,416	431,611
Campus indirect	188,136	188,742	183,200	162,497	175,525
Lincoln Laboratory direct	791,292	860,190	819,645	770,672	719,883
Lincoln Laboratory indirect	37,367	30,783	25,263	34,111	24,449
SMART direct	31,519	47,332	28,311	23,300	20,912
SMART indirect	98	193	276	210	223
Gifts, bequests, and pledges	452,655	325,018	433,424	522,409	246,580
Net gain (loss) on investments and other assets	2,152,933	1,164,164	738,308	1,483,669	784,348
Investment income and distributions	634,454	604,753	554,627	505,503	566,110
Principal Purposes of Expenditures					
Total operating expenditures	$ 2,918,517	$ 2,908,577	$ 2,744,586	$ 2,571,147	$ 2,382,566
General and administrative	713,103	681,505	604,320	523,676	461,186
Instruction and unsponsored research	777,382	692,032	673,851	659,839	613,345
Direct cost of sponsored research current dollars	1,283,189	1,397,857	1,335,638	1,265,776	1,192,041
Direct cost of sponsored research constant dollars (2010 = 100)	1,184,699	1,309,538	1,272,076	1,240,859	1,192,041

Massachusetts Institute of Technology

Five-Year Trend Analysis – Financial Highlights (continued)

(in thousands of dollars)	2014	2013	2012	2011	2010
Research Revenues [(A)]					
Campus					
Federal government sponsored:					
Health and Human Services	$ 115,075	$ 119,908	$ 133,687	$ 152,664	$ 144,561
Department of Defense	122,761	127,967	117,458	107,753	106,890
Department of Energy	88,451	88,988	90,940	89,562	73,274
National Science Foundation	79,021	79,255	81,487	74,859	69,801
National Aeronautics and Space Administration	32,062	29,835	30,204	28,080	30,629
Other Federal	17,610	19,994	18,807	16,602	12,717
Total Federal	454,980	465,947	472,583	469,520	437,872
Non-Federally sponsored:					
State/local/foreign governments	28,967	33,429	38,273	32,969	33,339
Non-profits	82,085	58,227	48,373	44,436	50,639
Industry	112,379	106,447	109,745	100,763	93,330
Total non-Federal	223,431	198,103	196,391	178,168	177,308
Total Federal and non-Federal	678,411	664,050	668,974	647,688	615,180
F&A and other adjustments	(9,792)	(2,088)	(14,619)	(28,775)	(11,044)
Total campus	668,619	661,962	654,355	618,913	604,136
Lincoln Laboratory					
Federal government sponsored	809,011	882,462	844,202	803,599	749,974
Non-Federally sponsored	2,333	1,622	2,023	2,511	3,068
F&A and other adjustments	17,315	6,889	(1,317)	(1,327)	(8,710)
Total Lincoln Laboratory	828,659	890,973	844,908	804,783	744,332
SMART [(B)]					
Non-Federally sponsored	31,617	47,525	28,587	23,510	21,135
Total SMART	31,617	47,525	28,587	23,510	21,135
Total research revenues	**$ 1,528,895**	**$ 1,600,460**	**$ 1,527,850**	**$ 1,447,206**	**$ 1,369,603**

[(A)] *The amounts in this table reflect revenues from the original source of funds and the Broad Institute.*

[(B)] *The amounts represent research that has taken place in Singapore.*

Massachusetts Institute of Technology

Five-Year Trend Analysis – Financial Highlights (continued)

	2014	2013	2012	2011	2010
Students					
Undergraduate:					
Full-time	4,499	4,480	4,354	4,252	4,201
Part-time	29	23	30	47	31
Undergraduate applications:					
Applicants	18,989	18,109	17,909	16,632	15,663
Accepted	1,548	1,620	1,742	1,676	1,676
Acceptance rate	8%	9%	10%	10%	11%
Enrolled	1,115	1,135	1,126	1,067	1,072
Yield	72%	70%	65%	64%	64%
Freshman ranking in the top 10% of their class	99%	98%	97%	98%	95%
Average SAT scores (math and verbal)	1,492	1,481	1,472	1,473	1,455
Graduate:					
Full-time	6,639	6,537	6,342	6,108	6,022
Part-time	134	149	168	159	130
Graduate applications:					
Applicants	24,029	22,588	22,219	22,139	19,336
Accepted	3,320	3,504	3,306	3,431	2,994
Acceptance rate	14%	16%	15%	15%	15%
Enrolled	2,163	2,229	2,118	2,141	1,939
Yield	65%	64%	64%	62%	65%
Tuition *(in dollars)*					
Tuition and fees	$ 43,498	$ 42,050	$ 40,732	$ 39,212	$ 37,782
Average room and board	12,744	12,188	11,775	11,234	11,360
Student Support *(in thousands of dollars)*					
Undergraduate tuition support	$ 103,076	$ 101,831	$ 102,081	$ 92,060	$ 89,813
Graduate tuition support	240,022	226,158	215,702	201,995	195,178
Fellowship stipends	38,792	36,173	33,263	30,435	28,104
Student loans	9,095	9,669	9,556	9,968	9,641
Student employment	99,890	96,446	90,135	85,335	84,304
Total student support	**$ 490,875**	**$ 470,277**	**$ 450,737**	**$ 419,793**	**$ 407,040**
Faculty and Staff *(including unpaid appointments)*					
Faculty	1,030	1,022	1,018	1,017	1,025
Staff and fellows	13,787	13,416	13,109	12,662	12,577

Report of the Treasurer

for the year ended
June 30, 2014

Massachusetts
Institute of
Technology

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